Agenda

ND Teachers' Fund for Retirement
Board Meeting

Thursday, September 27, 2012
12:30 pm

Peace Garden Room
State Capitol, Bismarck, ND

1. Call to Order and Approval of Agenda - Pres. Gessner
2. Approval of Minutes of July 18, 2012, Meeting – Pres. Gessner
3. Executive Session - Benefit Appeal 2012 – 2A
   *Executive Session required to discuss confidential information and for attorney consultation under NDCC 44-04-19.1, NDCC 44-04-19.2, and NDCC 15-39.1-30.
4. Annual Investment Review – Darren Schultz, Interim CIO
5. Annual RIO Budget and Expense Report – Connie Flanagan
6. Legislative Update – Fay Kopp
7. Structure of Retirement and Investment Office – Pres. Gessner
8. Other Business
9. Adjournment

Next Board Meeting: October 25, 2012

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

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
JULY 18, 2012, BOARD MEETING

BOARD MEMBERS PRESENT:	Mike Gessner, President Clarence Corneil, Trustee Kim Franz, Trustee Lowell Latimer, Vice President Bob Toso, Trustee
BOARD MEMBERS ABSENT:	Wayne Sanstead, State Superintendent Kelly Schmidt, State Treasurer
STAFF PRESENT:	Fay Kopp, Interim Executive Director Darlene Roppel, Retirement Assistant Shelly Schumacher, Retirement Program Manager
OTHERS PRESENT:	Dakota Draper, NDEA Kayla Effertz, Governor's Office Edward Erickson, Attorney General's Office Bill Kalanek, NDRTA Larry Klundt, LAK Educational Consulting Rolland Larson, NDRTA Janilyn Murtha, Attorney General's Office Kim Nicholl, Segal Company

CALL TO ORDER:

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the board meeting to order at 8:30 a.m. on Wednesday, July 18, 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, AND MR. TOSO.

Treasurer Schmidt and Dr. Sanstead were absent.

APPROVAL OF AGENDA:

The Board considered the meeting agenda.

MRS. FRANZ MOVED AND MR. TOSO SECONDED TO APPROVE THE AGENDA AS PRESENTED.

AYES: MR. CORNEIL, MR. TOSO, MRS. FRANZ, DR. LATIMER, AND PRESIDENT GESSNER.

NAYS: NONE
MOTION CARRIED.

MINUTES:

The Board considered the minutes of the special board meeting held June 21, 2012.

DR. LATIMER MOVED AND MRS. FRANZ SECONDED TO APPROVE THE MINUTES OF THE SPECIAL TFFR BOARD MEETING HELD JUNE 21, 2012, AS PRESENTED.

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

ELECTION OF 2012-13 OFFICERS:

President Gessner announced that Clarence Corneil was reappointed by Governor Dalrymple to another 5-year term on the TFFR Board.

MR. TOSO MOVED AND MR. CORNEIL SECONDED TO CONTINUE WITH THE SAME SLATE OF BOARD OFFICERS AND COMMITTEE MEMBERS FOR 2012-13 AS THE PREVIOUS YEAR:

President - Mike Gessner; Vice President - Lowell Latimer; State Investment Board (SIB) members - Mr. Gessner, Robert Toso, Clarence Corneil, State Treasurer Schmidt (ex-officio) and Dr. Sanstead (alternate); SIB Audit Committee member - Mr. Gessner.

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

DEVELOPMENT OF FUNDING POLICY:

Mrs. Fay Kopp, Interim Executive Director, introduced Ms. Kim Nicholl, Segal Company, who presented information on developing a TFFR funding policy. Ms. Nicholl described the need for a funding policy, general policy objectives, and funding policy components. She explained that in addition to creating a basis for measuring statutory contribution rate adequacy, a byproduct of this funding study will be that TFFR will have a comprehensive statement of funding policy to use in meeting the new Governmental Accounting Standards Board (GASB) requirements.

The three funding policy components include: actuarial cost method which allocates present value of member's future benefits to years of service; asset smoothing method which manages short term market volatility while tracking market value of assets (MVA); and amortization method which sets contributions to systematically pay off the unfunded actuarial accrued liability (UAAL).

Ms. Nicholl suggested modeling different approaches as follows:

1. Actuarial cost method - recommend continued use of entry age normal; consider “traditional” versus “ultimate” normal cost.
2. Asset smoothing method - recommend continued use of 5 year smoothing period; consider use of MVA corridor.
3. 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.

The Board discussed the various approaches, and requested Mrs. Kopp and Ms. Nicholl to run different projections for discussion at the October TFFR board meeting.

Ms. Nicholl’s presentation is on file at the Retirement and Investment Office (RIO).

The meeting recessed at 10:20 a.m. and reconvened at 10:30 a.m.

SIB SEARCH COMMITTEE UPDATE:

Mr. Toso, SIB Search Committee representative, updated the Board on the committee’s last meeting and commented on the letter sent to the TFFR Board from Lt. Governor Wrigley, Chairman of the SIB. The committee will strive to keep the organizations informed on the progress. The committee is requesting input on the job description of the next Chief Investment Officer (CIO). A Request for Proposal (RFP) will be issued for an executive search firm to conduct the search for the CIO. All board members will get copies of the minutes from the Search Committee meetings.

2013 LEGISLATIVE UPDATE:

Mrs. Kopp reported that Bill 99 (TFFR-administrative changes) and Bill 43 (Rep. Louser-expiration of the increase in TFFR contribution rates) were submitted to the Legislative Employee Benefits Programs Committee (LEBPC) and have been sent to Segal for actuarial and technical analysis.

Mrs. Kopp stated TFFR’s estimated 2012 investment return will be about -1.0%. She provided a graph from the 2011 valuation report showing the projected TFFR funded ratio in 2012 and future years. Actuarial projections indicated TFFR’s funded level will continue to decline for the next couple years, and 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.

2011 LEGISLATIVE IMPLEMENTATION UPDATE:

Mrs. Shelly Schumacher, Retirement Program Manager, reported on the implementation of the 2011 legislative changes. The annual statements that are sent to the non-retired members in August will not contain benefit estimates in 2012 and 2013, during the transition to grandfathered or non-grandfathered status since programming cannot be completed until 2013. The 2013 annual statement will show the member's new tier, and the 2014 annual statement will again show benefit projections based on the new tier. CPAS programming cost for Phase 1 of House Bill (HB) 1134 is $59,910. CPAS estimated cost for Phase 2 of HB 1134 is $102,080. Additional funds were not budgeted for these charges.

Of the 219 schools who will be reporting to TFFR in 2012-13, 217 have submitted their new employer payment plan forms and have indicated the model under which they will pay member contributions. Twenty-five employers changed models and/or the pickup amount; twelve employers that were picking up the 7.75% member contribution, are not picking up the additional 2.0% member contribution increase effective 7/1/12.

CONSENT AGENDA:

MR. TOSO MOVED AND MR. CORNEIL SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDED TWO DISABILITY APPLICATIONS, 2012-4D AND 2012-5D.

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

EXECUTIVE SESSION*:

Ms. Jan Murtha, Attorney General's office (AGO), introduced Mr. Edward Erickson, also from the AGO, and outlined the general structure of the member appeal and explained the individual roles of legal counsel.

President Gessner advised the Board that it would go into Executive Session to discuss Member Appeal 2012-1A due to the confidentiality of the retirement records being discussed under NDCC 15-39.1-30. The legal authority under which the Board is moving into Executive Session is NDCC 44-04-19.1 and NDCC 44-04-19.2. The topic to be discussed in the Executive Session is a member's appeal of service purchase cost calculation. President Gessner reminded board members to limit their discussion during the executive session to the announced topic.

EXECUTIVE SESSION – CONFIDENTIAL MEMBER INFORMATION

Executive session attendees included: Mr. Corneil, Mrs. Franz, President Gessner, Dr. Latimer, Mr. Toso, Ms. Murtha, Mr. Erickson, Mrs. Kopp, Mrs. Schumacher, Mrs. Roppel, and member.

The first executive session began at 11:12 a.m. and ended at 12:11 p.m.

EXECUTIVE SESSION – ATTORNEY CONSULTATION

Executive session attendees included: Mr. Corneil, Mrs. Franz, President Gessner, Dr. Latimer, Mr. Toso, Mr. Erickson, and Mrs. Roppel.

The second executive session began at 12:12 p.m. and ended at 12:37 p.m.

OPEN SESSION

DR.LATIMER MOVED AND MRS. FRANZ SECONDED TO DENY APPEAL # 2012-1A AND REQUEST THE STAFF TO SEND A LETTER TO THE MEMBER EXPLAINING THE REASONS FOR THE DENIAL.

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

The meeting recessed for lunch at 12:40 p.m.

President Gessner called the meeting back to order at 1:17 p.m.

BOARD EDUCATION – IMPACT OF OIL INDUSTRY ON ND SCHOOLS

Mrs. Kopp introduced three guests who shared information on the impact of the oil industry on North Dakota schools.

Ms. Kayla Effertz, Sr. Policy Advisor on Education, Governor's office, reported on some of the challenges schools and administrators are facing in the western part of the state. They include: enrollment projections, facility planning, housing for teachers, funding and others.

Mr. Larry Klundt, LAK Educational Consulting, gave a report on surveys and studies he has done on enrollment and teacher needs. His report is on file at RIO.

Mr. Dakota Draper, North Dakota Education Association (NDEA) president, presented information on enrollment comparisons and salary schedules. North Dakota is now 47th out of 51 in teacher salaries. The report is on file at RIO.

Mrs. Kopp commented on how these changes in ND education could impact TFFR in the future: 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.

The Board thanked the presenters for sharing this helpful information.

Upon conclusion of the board education, the business meeting resumed at 2:30 p.m.

ANNUAL TFFR PROGRAM REVIEW:

Mrs. Kopp reviewed the TFFR board's 2011-12 accomplishments which included completing the Asset Liability Study, restructuring the asset classes, revamping the Investment Policy Statement, beginning implementation of 2011 legislation, working with a new actuary, receiving a favorable Internal Revenue Service (IRS) determination letter, and receiving board education on a variety of topics. The 2011-12 program monitoring summary and 2012-13 board calendar and education plan were also reviewed. Mrs. Kopp did an overview of the TFFR Board Program Manual. The board members completed the Code of Conduct affirmation that is required annually. Discussion was held on Policy C-17 – Travel. No action is needed.

After discussion of TFFR board policies and program manual,

MR. TOSO MOVED AND MR. CORNEIL SECONDED TO APPROVE THE ANNUAL PROGRAM REVIEW.

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

ANNUAL CUSTOMER SATISFACTION REPORTS:

Mrs. Kopp expressed appreciation to the RIO staff for doing a remarkable job as is evidenced by the comments and evaluations that came back from members and business managers. Positive responses were also received from the North Dakota Council of Educational Leaders (NDCEL), NDEA, North Dakota Retired Teachers Association (NDRTA), and the North Dakota Association of School Business Managers (NDASBM).

President Gessner also expressed his appreciation for work well done by the staff. With input from the board members, President Gessner completed the SIB annual Customer Satisfaction Survey with an "excellent" in all areas.

MR. TOSO MOVED AND DR. LATIMER SECONDED TO ACCEPT THE ANNUAL CUSTOMER SATISFACTION REPORTS.

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

The annual National Council on Teacher Retirement (NCTR) convention will be held in Tucson, Arizona, October 6-10, 2012. Board members should let the office know by August 31, 2012, if they plan to attend.

ADJOURNMENT:

The next regular TFFR board meeting is scheduled for September 27, 2012.

With no further business to come before the Board, President Gessner adjourned the meeting at 2:55 p.m.

Respectfully Submitted:

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

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Darlene Roppel
Reporting Secretary

*Complete authority for executive session provided in Corrected Agenda (7-19-12), noting 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.

TFFR Annual Investment Review

September 27, 2012

Darren Schulz
Interim Chief Investment Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

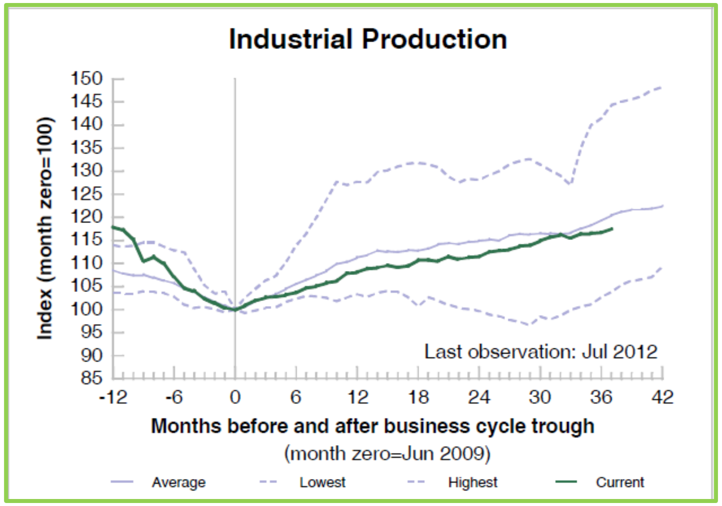
Presentation Agenda

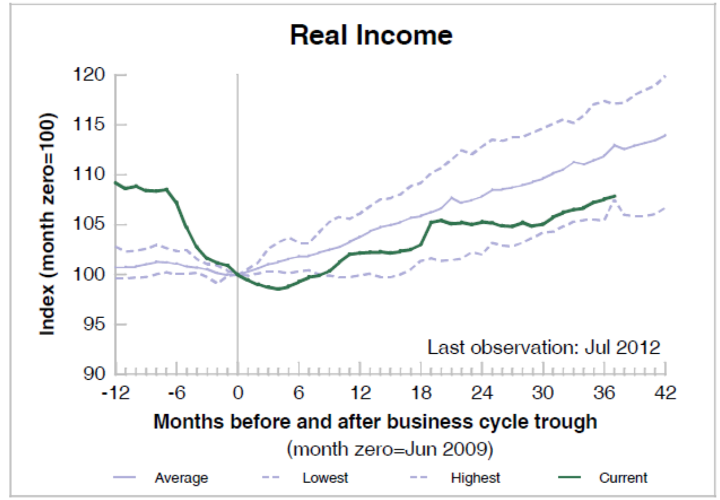
- Fiscal year highlights
- Investment climate
- Asset class historical returns
- TFFR investment performance and attribution
- TFFR asset allocation
- Fiscal year activity

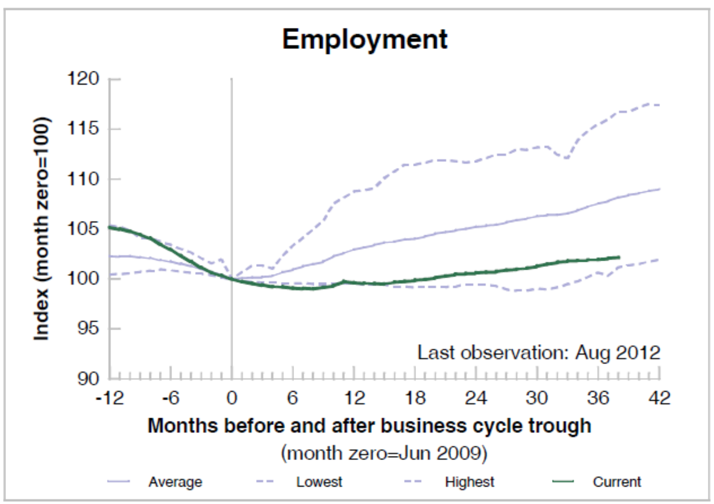
Fiscal Year Highlights

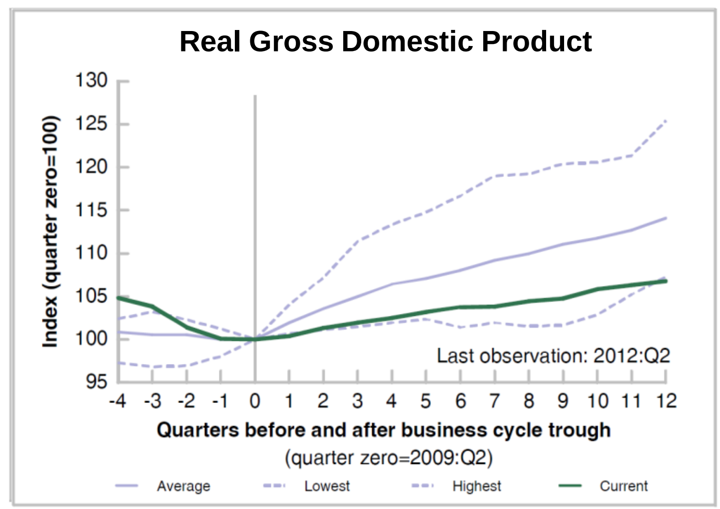
- Eurozone sovereign debt and European bank crisis
- U.S. debt ceiling crisis and S&P credit rating downgrade
- Weak U.S./developed market economic growth
- Slowdown in emerging market economies
- Fed action via sterilized QE 2.1, a.k.a. Operation Twist
- Persistent unemployment in the U.S.
- Signs of U.S. housing market recovery
- U.S. manufacturing resurgence

Current Recovery Versus Past Cycles





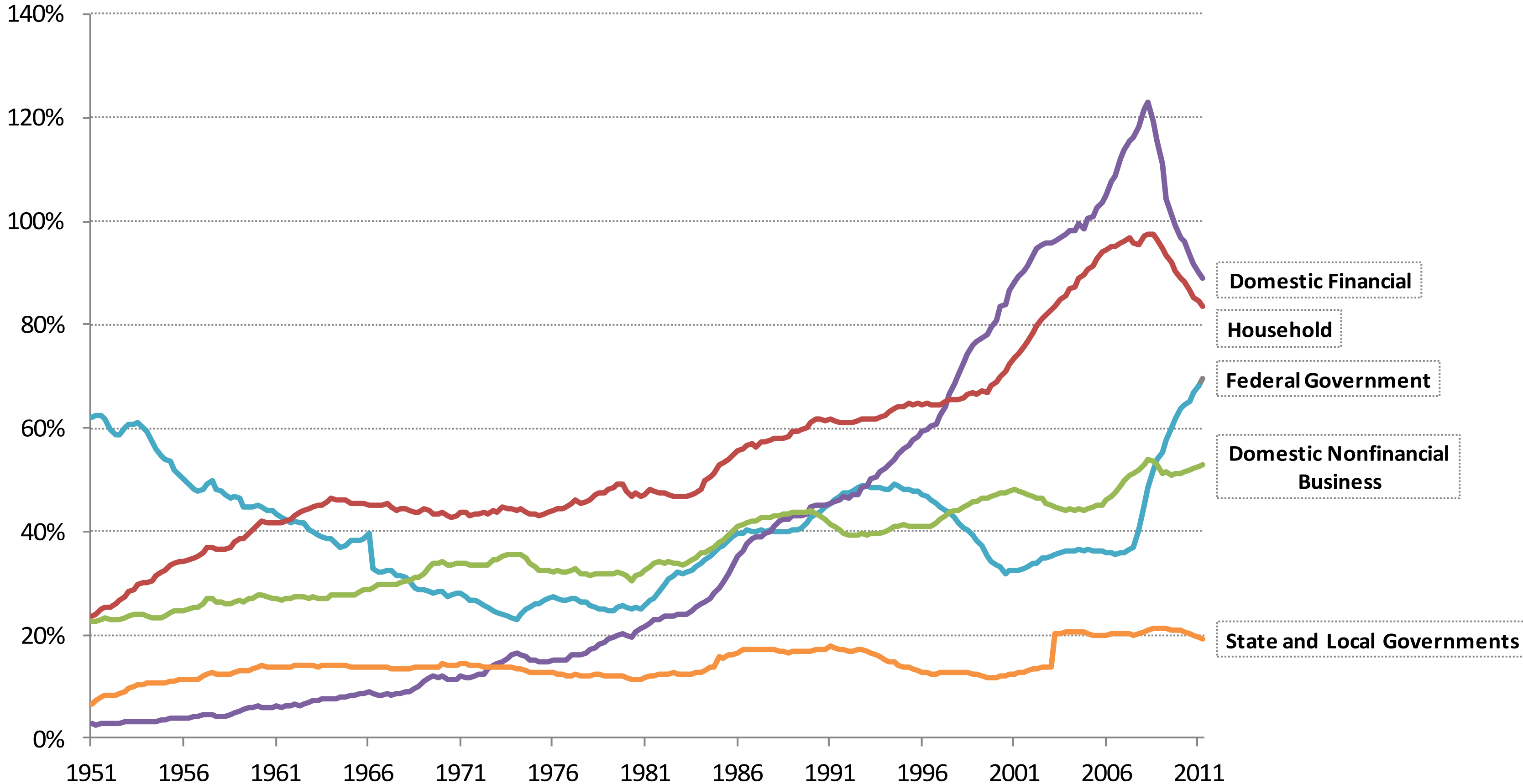




Source: Federal Reserve Bank of St. Louis

Debt Outstanding by Sector as a % of Total U.S. GDP

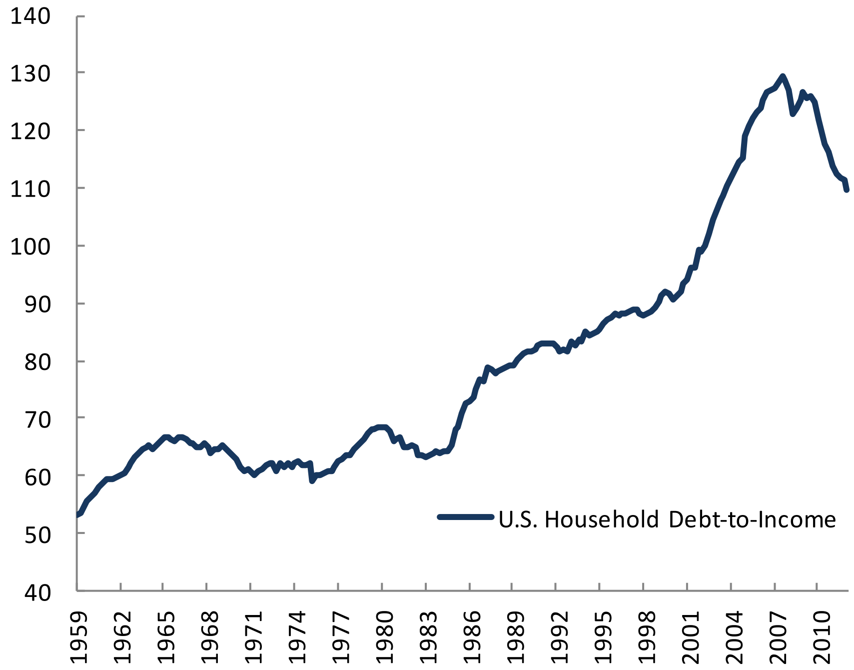
U.S. private sector debt has fallen relative to GDP since 2008, while public debt has reached its highest level since World War II.



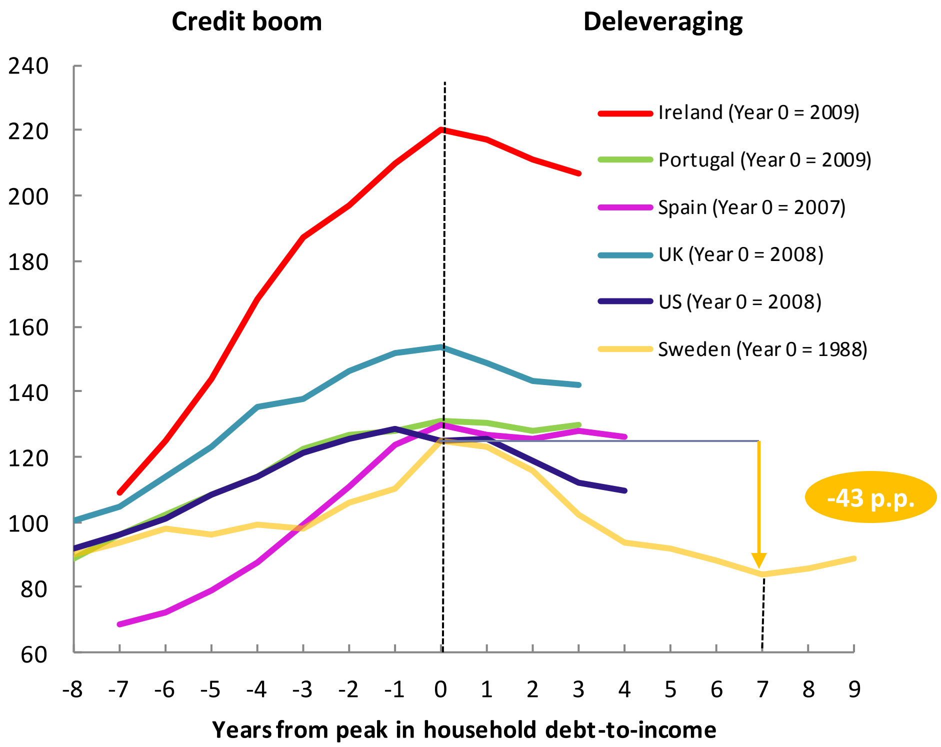
Source: Federal Reserve, Z.1 Flow of Funds Accounts

Household Debt as a % of Disposable Income

The accumulation of debt in the U.S. household sector has occurred over three decades.



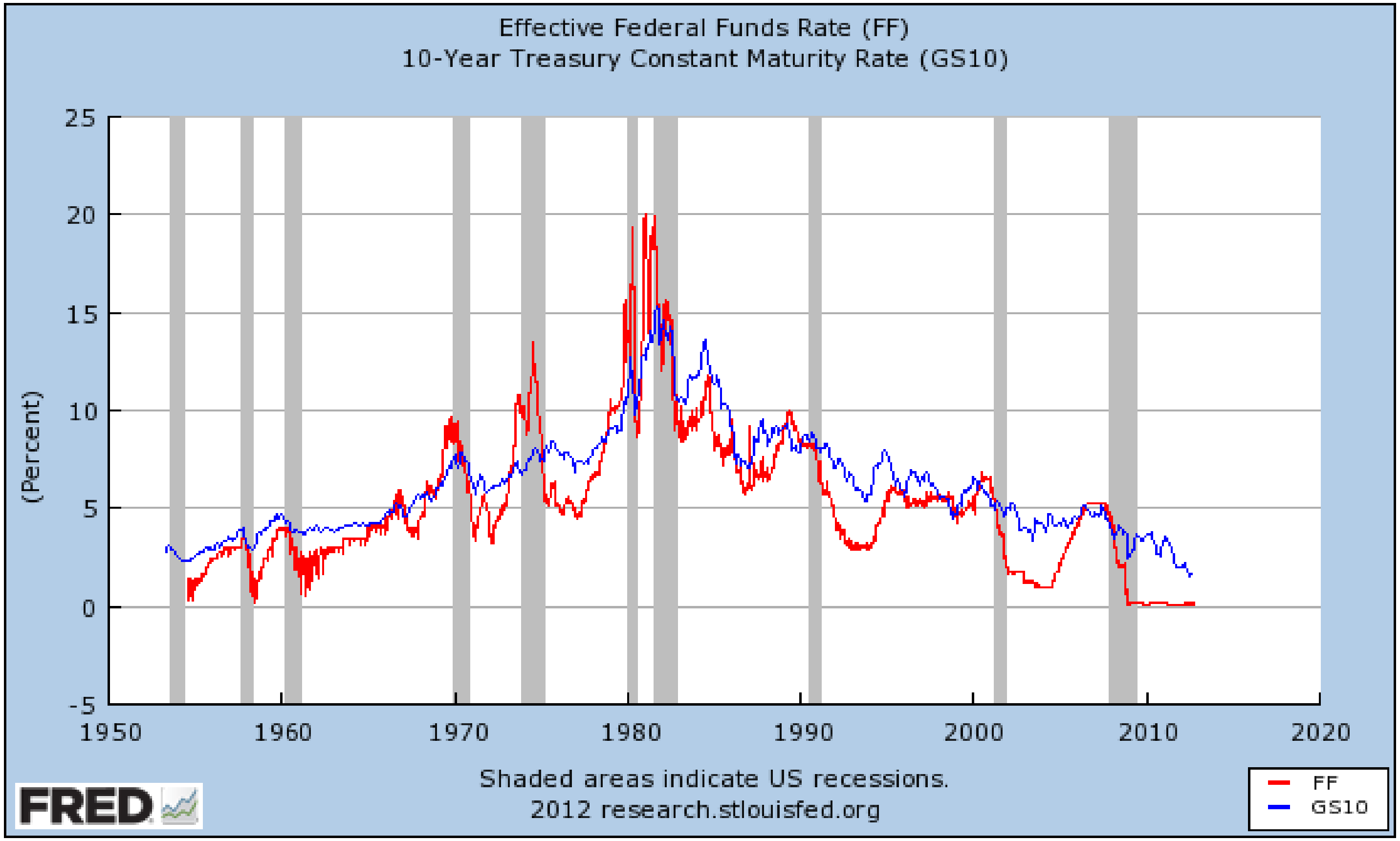
The U.S. is ahead of other developed countries in deleveraging, but household debt remains high.



Source: Federal Reserve Bank of St. Louis, Haver Analytics, Statistics Sweden, McKinsey Global Institute

Interest Rate Environment

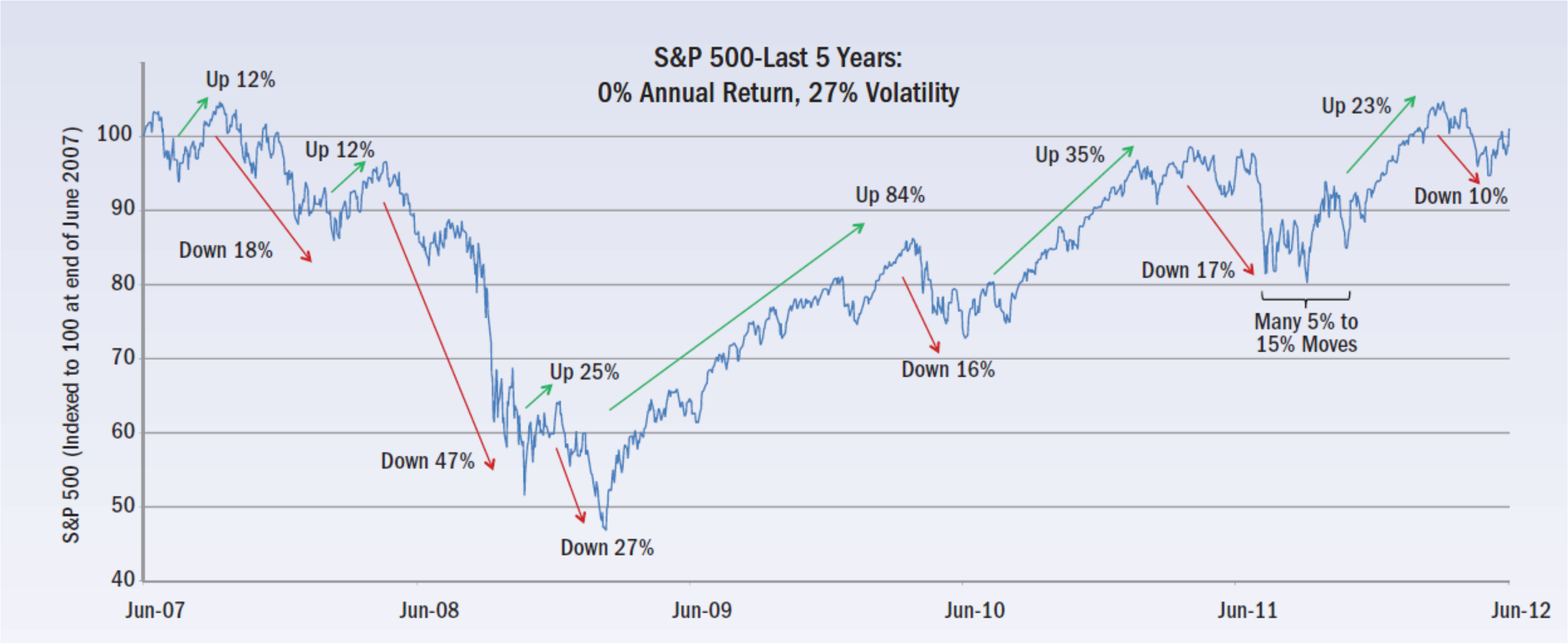
The Fed continues to maintain its zero-bound interest rate policy and utilize unconventional monetary policy tools.



Source: Federal Reserve Bank of St. Louis

U.S. Equity Market: A Long, Tumultuous Journey

Since June 2007, the S&P 500 has exhibited high volatility, a zero nominal return, and negative returns when adjusted for inflation.



Source: Standard & Poor's

Historical Market Returns by Asset Class

		Periods Ended June 30, 2012						
Asset Class	Represented by	1 Year	3 Year	5 Years	10 Years	20 Years	25 Years	30 Years
Large Cap US Stocks	Russell 1000	4.37%	16.64%	0.39%	5.72%	8.52%	8.77%	11.61%
Small Cap US Stocks	Russell 2000	-2.08%	17.80%	0.54%	7.00%	8.96%	8.12%	10.53%
Non-US Stocks (Developed)	MSCI EAFE	-13.83%	5.96%	-6.10%	5.14%	5.27%	4.34%	9.53%
Non-US Stocks (Emerging)	MSCI Emerging Mkts	-15.67%	10.10%	0.21%	14.42%	8.31%		
US Bonds	BC Aggregate	7.47%	6.93%	6.79%	5.63%	6.48%	7.28%	8.82%
High Yield Bonds	BC High Yield Credit	7.27%	16.29%	8.45%	10.16%	8.06%	8.54%	
Non-US Sovereign Debt	Citi World Gov't Bond ex US	0.44%	5.13%	7.39%	7.15%	6.35%	7.16%	
Inflation Protected	BC Global Inflation Linked	4.25%	7.04%	6.13%	7.67%			
Real Estate	NCREIF	12.04%	8.82%	2.51%	8.29%	8.41%	7.39%	7.96%
TFFR Total Fund (net of fees)		-0.96%	11.87%	-1.24%	6.01%	7.06%	7.58%	8.79%

Source: Callan

Callan Periodic Table of Investment Returns

Fiscal Year Returns (1993-2012) Ranked in Order of Performance

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Russell 2000 26.0%	MSCI Emerging Markets 37.2%	S&P 500 26.1%	S&P 500 26.0%	S&P 500 34.7%	S&P 500 30.2%	MSCI Emerging Markets 28.7%	MSCI EAFE 17.2%	NCREIF:Total Index 11.6%	Barclays Aggregate 8.6%	Barclays Aggregate 10.4%	MSCI Emerging Markets 33.5%	MSCI Emerging Markets 34.9%	MSCI Emerging Markets 35.9%	MSCI Emerging Markets 45.5%	NCREIF:Total Index 9.2%	Barclays Aggregate 6.0%	MSCI Emerging Markets 23.5%	Russell 2000 37.4%	NCREIF:Total Index 12.0%
MSCI EAFE 20.3%	MSCI EAFE 17.0%	Russell 2000 20.1%	Russell 2000 23.9%	Total Fund-PERS Net 19.7%	NCREIF:Total Index 17.5%	S&P 500 22.8%	Russell 2000 14.3%	Barclays Aggregate 11.2%	NCREIF:Total Index 5.5%	NCREIF:Total Index 7.6%	Russell 2000 33.4%	NCREIF:Total Index 18.0%	MSCI EAFE 26.6%	MSCI EAFE 27.0%	Barclays Aggregate 7.1%	NCREIF:Total Index (19.6%)	Russell 2000 21.5%	S&P 500 30.7%	Barclays Aggregate 7.5%
MSCI Emerging Markets 18.6%	Russell 2000 4.3%	Total Fund-PERS Net 14.3%	Total Fund-PERS Net 15.8%	Total Fund-TFFR Net 19.3%	Russell 2000 16.5%	NCREIF:Total Index 12.8%	Total Fund-TFFR Net 11.6%	Russell 2000 0.6%	MSCI Emerging Markets 1.3%	MSCI Emerging Markets 7.0%	MSCI EAFE 32.4%	Total Fund-PERS Net 14.1%	NCREIF:Total Index 18.7%	S&P 500 20.6%	MSCI Emerging Markets 4.9%	Total Fund-PERS Net (24.5%)	S&P 500 14.4%	MSCI EAFE 30.4%	S&P 500 5.4%
Total Fund-TFFR Net 15.0%	NCREIF:Total Index 3.7%	Total Fund-TFFR Net 13.7%	Total Fund-TFFR Net 15.3%	Russell 2000 16.3%	Total Fund-PERS Net 16.1%	Total Fund-TFFR Net 11.1%	NCREIF:Total Index 11.6%	Total Fund-PERS Net (3.9%)	Total Fund-PERS Net (6.8%)	Total Fund-PERS Net 5.5%	Total Fund-TFFR Net 19.3%	MSCI EAFE 13.7%	Total Fund-TFFR Net 14.8%	Total Fund-TFFR Net 20.0%	Total Fund-PERS Net (5.6%)	Russell 2000 (25.0%)	Total Fund-TFFR Net 13.8%	MSCI Emerging Markets 28.2%	Total Fund-PERS Net 0.1%
Total Fund-PERS Net 15.0%	Total Fund-PERS Net 1.5%	Barclays Aggregate 12.5%	MSCI EAFE 13.3%	MSCI EAFE 12.8%	Total Fund-TFFR Net 14.0%	Total Fund-PERS Net 10.6%	MSCI Emerging Markets 9.5%	Total Fund-TFFR Net (7.0%)	Russell 2000 (8.6%)	Total Fund-TFFR Net 2.3%	S&P 500 19.1%	Total Fund-TFFR Net 13.3%	Russell 2000 14.6%	Total Fund-PERS Net 19.0%	Total Fund-TFFR Net (7.5%)	S&P 500 (26.2%)	Total Fund-PERS Net 13.7%	Total Fund-TFFR Net 24.2%	Total Fund-TFFR Net (1.0%)
S&P 500 13.6%	S&P 500 1.4%	NCREIF:Total Index 7.8%	MSCI Emerging Markets 8.5%	MSCI Emerging Markets 12.8%	Barclays Aggregate 10.5%	MSCI EAFE 7.6%	Total Fund-PERS Net 9.3%	S&P 500 (14.8%)	Total Fund-TFFR Net (8.9%)	S&P 500 0.3%	Total Fund-PERS Net 16.6%	Russell 2000 9.4%	Total Fund-PERS Net 12.0%	NCREIF:Total Index 17.2%	MSCI EAFE (10.6%)	Total Fund-TFFR Net (27.4%)	Barclays Aggregate 9.5%	Total Fund-PERS Net 21.4%	Russell 2000 (2.1%)
Barclays Aggregate 11.8%	Total Fund-TFFR Net 1.2%	MSCI EAFE 1.7%	NCREIF:Total Index 8.1%	NCREIF:Total Index 10.8%	MSCI EAFE 6.1%	Barclays Aggregate 3.1%	S&P 500 7.2%	MSCI EAFE (23.6%)	MSCI EAFE (9.5%)	Russell 2000 (1.6%)	NCREIF:Total Index 10.8%	Barclays Aggregate 6.8%	S&P 500 8.6%	Russell 2000 16.4%	S&P 500 (13.1%)	MSCI Emerging Markets (27.8%)	MSCI EAFE 5.9%	NCREIF:Total Index 16.7%	MSCI EAFE (13.8%)
NCREIF:Total Index (2.7%)	Barclays Aggregate (1.3%)	MSCI Emerging Markets 0.0%	Barclays Aggregate 5.0%	Barclays Aggregate 8.1%	MSCI Emerging Markets (39.1%)	Russell 2000 1.5%	Barclays Aggregate 4.6%	MSCI Emerging Markets (25.8%)	S&P 500 (18.0%)	MSCI EAFE (6.5%)	Barclays Aggregate 0.3%	S&P 500 6.3%	Barclays Aggregate (0.8%)	Barclays Aggregate 6.1%	Russell 2000 (16.2%)	MSCI EAFE (31.4%)	NCREIF:Total Index (1.5%)	Barclays Aggregate 3.9%	MSCI Emerging Markets (15.7%)

Source: Callan

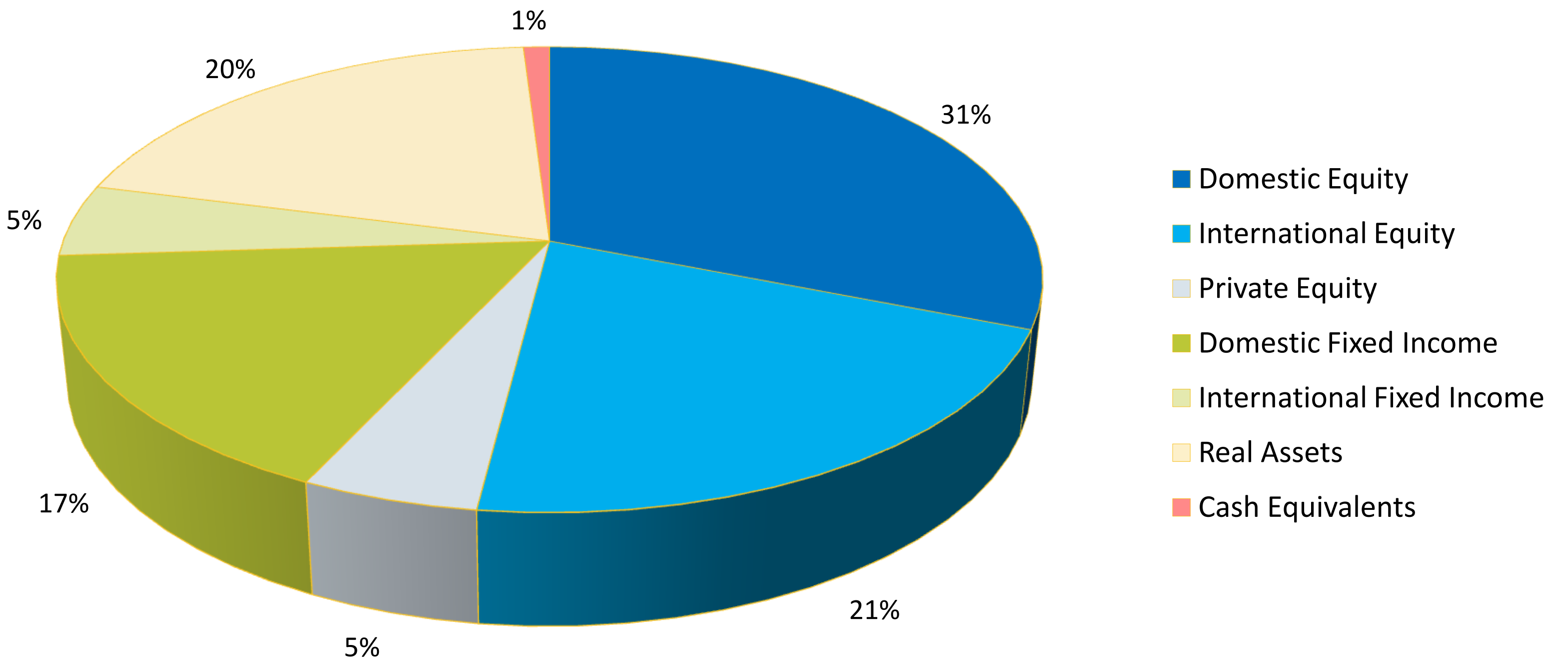
Asset Class & Total Fund Investment Performance
Fiscal Year Ended June 30, 2012

	Actual Return (Net)	Benchmark	Difference
Global Equity			
US Large Cap Equity	3.35%	5.34%	-1.99%
US Small Cap Equity	-0.37%	-2.08%	1.71%
International Equity	-15.15%	-13.83%	-1.32%
Emerging Markets Equity	-9.98%	-15.95%	5.97%
Private Equity	5.12%	5.12%	0.00%
Global Fixed Income			
US Investment Grade Fixed Income	5.99%	7.47%	-1.48%
US High Yield	3.06%	7.21%	-4.15%
International Fixed Income	4.25%	-0.64%	4.89%
Global Real Assets			
Real Estate	12.46%	12.04%	0.42%
Total Fund			
TFFR (net)	-0.96%	-0.82%	-0.14%

TFFR Performance Attribution

	Quarter Ended 6/30/2012	1 Yr Ended 6/30/2012	3 Yrs Ended 6/30/2012	5 Yrs Ended 6/30/2012	Risk 5 Yrs Ended 6/30/2012	Risk Adj Excess Return 5 Yrs Ended 6/30/2012
TEACHERS' FUND FOR RETIREMENT (TFFR)						
Total Fund Return - Net	-1.69%	-0.97%	11.87%	-1.24%	16.47%	-2.26%
Policy Benchmark Return	-1.55%	-0.82%	11.17%	1.19%	15.22%	
Attribution Analysis						
Asset Allocation	-0.24%	0.27%				
Manager Selection	0.10%	-0.43%				
Total Relative Return	-0.14%	-0.16%	0.70%	-2.43%		

TFFR Asset Allocation



Fiscal Year Investment Activity

- New target allocation and asset allocation framework adopted by TFFR
- Fixed income allocation restructured to deliver enhanced risk-adjusted returns via reduced credit exposure
- Global equity mandate structure is currently being reviewed and a phased restructuring is pending
- In the low return, high volatility climate, we have been seeking to do the following:
  - Emphasize current income
  - Adopt a more global perspective with less emphasis on “style boxes”
  - Dampen the sensitivity to equity market volatility
  - Reduce investment management fees

Contact Information

- **Phone:**

  701-328-9885 or

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- **Mailing Address**

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ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF JUNE 30, 2012

	June-12							March-12					December-11					September-11					Current Fiscal YTD		Prior FY11		3 Years Ended 6/30/2012		5 Years Ended 6/30/2012
		Allocation		Quarter		Month			Allocation		Quarter			Allocation		Quarter			Allocation		Quarter								
	Market Value	Actual	Policy	Gross (8)	Net	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	Net
TOTAL FUND	1,631,302,383	100.0%	100.0%	-1.62%	-1.69%	2.87%	2.85%	1,670,643,141	100.0%	100.0%	7.73%	7.65%	1,563,760,487	100.0%	100.0%	5.35%	5.25%	1,496,550,631	100.0%	100.0%	-11.00%	-11.10%	-0.62%	-0.97%	24.63%	24.21%	12.29%	11.88%	-1.23%
POLICY TARGET BENCHMARK				-1.55%	-1.55%	2.89%	2.89%				7.11%	7.11%				5.25%	5.25%				-10.63%	-10.63%	-0.82%	-0.82%	22.50%	22.50%	11.17%	11.17%	1.19%
ATTRIBUTION ANALYSIS																													
Asset Allocation				-0.24%	-0.24%	-0.04%	-0.04%				0.14%	0.14%				0.27%	0.27%				0.11%	0.11%	0.27%	0.27%	-0.31%	-0.31%			
Manager Selection				0.17%	0.10%	0.03%	0.00%				0.48%	0.40%				-0.18%	-0.28%				-0.47%	-0.57%	-0.07%	-0.43%	2.44%	2.01%			
TOTAL RELATIVE RETURN				-0.07%	-0.14%	-0.01%	-0.04%				0.62%	0.54%				0.10%	0.00%				-0.36%	-0.46%	0.20%	-0.16%	2.13%	1.70%			
GLOBAL EQUITIES	919,066,331	56.3%	57.0%	-3.83%	-3.91%	4.35%	4.32%	996,127,083	59.6%	57.0%	11.35%	11.25%	903,047,679	57.7%	57.0%	7.61%	7.50%	916,665,173	0.61										
Benchmark				-3.89%	-3.89%	4.66%	4.66%				11.30%	11.30%				7.84%	7.84%												
Epoch (1)	73,569,446	4.5%	4.5%	-4.49%	-4.72%	4.70%	4.68%	76,949,348	4.6%	4.5%	11.79%	11.53%	73,967,628	4.7%	4.7%	7.08%	6.83%						-1.33%	-2.28%	26.85%	25.67%	11.26%	10.15%	0.02%
Calamos	21,936,732	1.3%	1.5%	-5.89%	-6.06%	2.67%	2.65%	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
Total Global Equities	95,506,178	5.9%	6.0%	-4.81%	-5.03%	4.22%	4.21%	100,221,080	6.0%	6.0%	11.18%	10.93%	73,967,628	4.7%	4.7%	7.08%	6.83%												
MSCI World (2)				-5.07%	-5.07%	5.10%	5.10%				11.56%	11.56%				11.82%	11.82%												
Domestic - broad	445,200,004	27.3%	27.4%	-3.07%	-3.15%	4.22%	4.19%	475,490,776	28.5%	27.4%	13.14%	13.05%	493,397,332	31.6%	31.0%	12.71%	12.58%	513,585,183	0.34										
Benchmark				-3.20%	-3.20%	4.09%	4.09%				12.80%	12.80%				12.65%	12.65%												
Large Cap Domestic																													
LA Capital	103,470,606	6.3%	5.1%	-2.28%	-2.34%	3.06%	3.05%	103,464,966	6.2%	4.6%	14.30%	14.24%	88,927,518	5.7%	5.5%	12.43%	12.38%	83,807,698	5.6%	6.4%	-14.96%	-15.00%	6.79%	6.56%	32.87%	32.66%	17.64%	17.43%	2.00%
Russell 1000 Growth				-4.02%	-4.02%	2.72%	2.72%				14.69%	14.69%				10.61%	10.61%				-13.14%	-13.14%	5.76%	5.76%	35.01%	35.01%	17.50%	17.50%	2.87%
LSV	100,739,558	6.2%	5.1%	-4.95%	-5.02%	4.42%	4.39%	102,016,069	6.1%	4.6%	13.07%	12.99%	86,328,918	5.5%	5.5%	14.31%	14.23%	80,123,499	5.4%	6.4%	-19.59%	-19.65%	-1.21%	-1.51%	30.94%	30.53%	15.39%	15.02%	-3.25%
Russell 1000 Value				-2.20%	-2.20%	4.97%	4.97%				11.12%	11.12%				13.11%	13.11%				-16.20%	-16.20%	3.00%	3.00%	28.94%	28.94%	15.80%	15.80%	-2.19%
LA Capital	69,933,333	4.3%	2.9%	-1.32%	-1.36%	4.46%	4.44%	66,639,139	4.0%	2.6%	12.27%	12.22%	50,624,900	3.2%	3.1%	12.17%	12.11%	48,398,643	3.2%	3.7%	-14.41%	-14.46%	6.37%	6.15%	30.52%	30.08%	17.26%	16.97%	0.99%
Russell 1000				-3.12%	-3.12%	3.83%	3.83%				12.90%	12.90%				11.84%	11.84%				-14.68%	-14.68%	4.37%	4.37%	31.94%	31.94%	16.64%	16.64%	0.39%
Northern Trust	33,891,736	2.1%	2.1%	-3.25%	-3.35%	4.66%	4.62%	34,146,992	2.0%	2.0%	12.18%	12.07%	30,502,184	2.0%	2.0%	12.96%	12.85%	26,600,997	1.8%	1.8%	-13.16%	-13.24%	6.46%	6.05%	30.42%	30.42%	16.89%	16.74%	0.00%
Prudential	163,053	0.0%	0.0%	0.09%	0.05%	0.00%	-0.01%	27,864,265	1.7%	1.7%	9.41%	9.37%	25,006,671	1.6%	1.6%	9.74%	9.70%	22,473,322	1.5%	1.5%	-11.44%	-11.48%	6.42%	6.25%	32.07%	31.91%	30.88%	30.72%	N/A
Declaration/Clifton	-	0.0%	0.0%	N/A	N/A	N/A	N/A	-	0.0%	0.0%	N/A	N/A	9	0.0%	0.0%	14.68%	14.64%	14,367,825	1.0%	1.0%	-15.26%	-15.29%	N/A	N/A	32.76%	32.68%	N/A	N/A	N/A
Clifton	33,875,531	2.1%	1.5%	-2.13%	-2.20%	4.56%	4.53%	33,728,161	2.0%	1.3%	12.92%	12.85%	26,614,900	1.7%	1.6%	12.49%	12.42%	23,334,658	1.6%	1.8%	-14.27%	-14.32%	6.57%	6.30%	N/A	N/A	N/A	N/A	N/A
S&P 500				-2.75%	-2.75%	4.12%	4.12%				12.59%	12.59%				11.82%	11.82%				-13.87%	-13.87%	5.45%	5.45%	30.69%	30.69%	16.40%	16.40%	0.22%
Epoch																		82,317,151	5.5%	5.5%	-13.69%	-13.91%							
S&P 500																					-13.87%	-13.87%							
Total Large Cap Domestic	342,073,819	21.0%	21.2%	-2.86%	-2.92%	4.05%	4.02%	367,859,591	22.0%	21.2%	12.88%	12.82%	381,972,727	24.4%	24.0%	11.63%	11.52%	381,423,793	25.5%	28.0%	-15.30%	-15.38%	3.68%	3.35%	30.57%	30.11%	17.27%	16.86%	-4.31%
Russell 1000 (2)				-3.12%	-3.12%	3.83%	3.83%				12.90%	12.90%				11.82%	11.82%				-13.87%	-13.87%	5.34%	5.34%	30.69%	30.69%	16.36%	16.36%	0.20%
Small Cap Domestic																													
SEI	300,339	0.0%	0.0%	-14.21%	-14.21%	-10.53%	-10.53%	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%	-27.98%	-27.98%	-9.50%	-9.50%	-3.92%	-4.12%	-17.53%
Callan	51,207,863	3.1%	3.1%	-4.75%	-4.94%	4.40%	4.34%	54,021,052	3.2%	3.1%	14.69%	14.47%	54,884,942	3.5%	3.5%	15.23%	15.01%	68,357,247	4.6%	4.5%	-23.03%	-23.20%	-3.11%	-3.87%	40.56%	39.91%	19.05%	18.33%	0.63%
Clifton	51,617,983	3.2%	3.1%	-2.78%	-2.88%	5.30%	5.27%	53,258,961	3.2%	3.1%	13.02%	12.91%	56,186,339	3.6%	3.5%	16.16%	16.04%	63,406,187	4.2%	4.5%	-22.15%	-22.24%	-0.63%	-1.05%	39.37%	38.90%	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	103,126,186	6.3%	6.2%	-3.80%	-3.95%	4.80%	4.75%	107,631,186	6.4%	6.2%	13.82%	13.66%	111,424,605	7.1%	7.0%	15.71%	15.54%	145,864,273	9.7%	10.0%	-20.89%	-21.01%	0.23%	-0.37%	36.07%	35.56%	23.45%	22.72%	-0.06%
Russell 2000				-3.47%	-3.47%	4.99%	4.99%				12.44%	12.44%				15.47%	15.47%				-21.87%	-21.87%	-2.08%	-2.08%	37.41%	37.41%	17.80%	17.80%	0.54%
International - broad	273,536,914	16.8%	18.6%	-7.92%	-8.06%	6.01%	5.96%	320,893,495	19.2%	18.6%	12.13%	11.98%	306,358,578	19.6%	21.0%	3.19%	3.05%	297,130,739	19.9%										
Benchmark				-7.46%	-7.46%	6.41%	6.41%				11.50%	11.50%				3.55%	3.55%												
Developed International																													
State Street	18,494,677	1.1%	1.7%	-8.67%	-8.88%	7.08%	7.01%	20,414,184	1.2%	1.7%	11.43%	11.19%	18,743,051	1.2%	1.9%	3.86%	3.63%	22,781,592	1.5%	2.0%	-22.27%	-22.46%	-17.85%	-18.59%	32.35%	31.65%	4.88%	4.18%	-8.34%
MSCI EAFE (3)				-7.13%	-7.13%	7.01%	7.01%				10.86%	10.86%				3.33%	3.33%				-19.01%	-19.01%	-13.83%	-13.83%	30.36%	30.36%	5.96%	5.96%	-6.10%
Capital Guardian	25,769,603	1.6%	3.8%	-6.17%	-6.31%	5.88%	5.83%	27,669,828	1.7%	3.8%	12.08%	11.92%	25,248,907	1.6%	4.3%	4.02%	3.87%	30,621,735	2.0%	4.6%	-18.92%	-19.05%	-11.29%	-11.83%	24.66%	24.14%	6.93%	6.40%	-6.44%
LSV	49,139,698	3.0%	3.8%	-8.15%	-8.28%	6.46%	6.41%	53,900,155	3.2%	3.8%	10.21%	10.06%	50,014,166	3.2%	4.3%	2.98%	2.83%	61,261,192	4.1%	4.6%	-19.09%	-19.21%	-15.65%	-16.14%	24.26%	23.78%	4.91%	4.41%	-9.09%
MSCI EAFE (4)				-7.13%	-7.13%	7.01%	7.01%				10.86%	10.86%				3.33%	3.33%				-19.01%	-19.01%	-13.83%	-13.83%	23.58%	23.58%	4.92%	4.92%	-6.49%
Clifton	82,489,039	5.1%	2.4%	-7.69%	-7.71%	7.59%	7.58%	101,133,767	6.1%	2.4%	9.94%	9.91%	105,476,598	6.7%	2.7%	3.19%	3.17%	70,980,712	4.7%	2.9%	-19.19%	-19.22%	-15.37%	-15.46%	30.63%	30.56%	N/A	N/A	N/A
MSCI EAFE				-7.13%	-7.13%	7.01%	7.01%				10.86%	10.86%				3.33%	3.33%				-19.01%	-19.01%	-13.83%	-13.83%	30.36%	30.36%			
DFA	22,754,489	1.4%	1.7%	-10.81%	-11.01%	4.99%	4.92%	25,711,729	1.5%	1.7%	16.91%	16.67%	22,501,135	1.4%	1.9%	1.53%	1.31%	27,967,260	1.9%	2.0%	-21.68%	-21.86%	-17.09%	-17.81%	36.94%	36.26%	7.91%	7.22%	N/A
Wellington	26,363,516	1.6%	1.7%	-5.58%	-5.82%	4.02%	3.93%	28,160,572	1.7%	1.7%	15.22%	14.95%	25,014,864	1.6%	1.9%	0.77%	0.52%	31,350,337	2.1%	2.0%	-15.63%	-15.85%	-7.52%	-8.42%	37.82%	36.96%	13.15%	12.25%	-2.98%
S&P/Citigroup BMI EPAC < $2BN				-8.60%	-8.60%	4.01%	4.01%				13.92%	13.92%				-0.86%	-0.86%				-17.73%	-17.73%	-15.07%	-15.07%	31.96%	31.96%	7.45%	7.45%	-6.11%
Total Developed International	225,011,023	13.8%	15.0%	-7.81%	-7.93%	6.41%	6.37%	256,990,235	15.4%	15.0%	11.46%	11.33%	246,998,722	15.8%	17.0%	2.83%	2.71%	244,962,827	16.4%	18.0%	-19.29%	-19.41%	-14.72%	-15.15%	31.49%	31.02%	8.42%	7.93%	-6.05%
MSCI EAFE (4)				-7.13%	-7.13%	7.01%	7.01%				10.86%	10.86%				3.33%	3.33%				-19.01%	-19.01%	-13.83%	-13.83%	23.58%	23.58%	4.92%	4.92%	-6.49%
Emerging Markets																													
JP Morgan	15,108,559	0.9%	0.6%	-8.11%	-8.30%	4.48%	4.41%	16,449,359	1.0%	0.6%	13.48%	13.26%	14,428,644	0.9%	0.7%	5.77%	5.56%	10,734,916	0.7%	0.9%	-21.08%	-21.25%	-12.96%	-13.67%	25.77%	25.00%	10.63%	9.87%	0.43%
PanAgora	6,219,151	0.4%	0.6%	-6.26%	-6.48%	4.66%	4.58%	6,622,662	0.4%	0.6%	15.31%	15.05%	9,745,224	0.6%	0.7%	4.14%	3.90%	10,620,537	0.7%	0.9%	-24.20%	-24.40%	-14.67%	-15.49%	25.74%	25.06%	9.90%	9.15%	-1.25%
WestLB	56	0.0%	0.6%	-14.21%	-14.41%	0.00%	-0.07%	11,202,167	0.7%	0.6%	13.97%	13.73%	9,771,344	0.6%	0.7%	4.45%	4.22%	10,617,983	0.7%	0.9%	-23.20%	-23.39%	-21.57%	-22.29%	22.63%	22.00%	3.64%	2.96%	-4.17%
UBS	15,036,345	0.9%	1.1%	-8.70%	-8.91%	4.97%	4.90%	16,440,727	1.0%	1.1%	14.86%	14.62%	14,229,503	0.9%	1.2%	6.39%	6.16%	7,843,909	0.5%	0.0%	-23.87%	-24.05%	-15.06%	-15.82%	30.17%	29.32%	11.31%	10.48%	-0.03%
DFA	12,161,781	0.7%	0.7%	-7.89%	-8.13%	3.83%	3.75%	13,188,346	0.8%	0.7%	17.41%	17.14%	11,185,140	0.7%	0.8%	2.96%	2.71%	12,350,567	0.8%	1.0%	-24.72%	-24.93%	-16.19%	-17.02%	32.35%	31.59%	15.04%	14.26%	1.06%
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	48,525,891	3.0%	3.5%	-8.38%	-8.59%	4.39%	4.31%	63,903,260	3.8%	3.5%	14.92%	14.68%	59,359,856	3.8%	4.0%	4.85%	4.62%	74,361,426	5.0%	5.0%	-17.77%	-17.91%	-9.21%	-9.98%	27.93%	27.33%	12.70%	12.00%	0.96%
MSCI Emerging Markets				-8.89%	-8.89%	3.86%	3.86%				14.08%	14.08%				4.42%	4.42%				-22.56%	-22.56%	-15.95%	-15.95%	28.17%	28.17%	9.98%	9.98%	0.14%

ND TEACHERS FUND FOR RETIREMENT
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	June-12							March-12					December-11					September-11					Current Fiscal YTD		Prior FY11		3 Years Ended 6/30/2012		5 Years Ended 6/30/2012
		Allocation		Quarter		Month			Allocation		Quarter			Allocation		Quarter			Allocation		Quarter								
	Market Value	Actual	Policy	Gross (8)	Net	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	Net
Private Equity																													
Brinson IVCF III	40,278	0.0%		3.81%	3.81%	-0.41%	-0.41%	45,753	0.0%		0.00%	0.00%	45,753	0.0%		0.00%	0.00%	45,753			5.18%	5.18%	9.19%	9.19%	45.71%	45.71%	19.22%	19.22%	14.97%
Coral Partners V	25,214	0.0%		40.41%	40.41%	-14.41%	-14.41%	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%	12.85%	12.85%	42.92%	42.92%	75.73%	75.73%	38.62%
Coral Partners V - Supplemental	211,618	0.0%		26.20%	26.20%	-3.58%	-3.58%	167,686	0.0%		-17.46%	-17.46%	204,005	0.0%		-60.04%	-60.04%	499,328			0.00%	0.00%	-58.37%	-58.37%	90.61%	90.61%	-15.87%	-15.87%	-14.90%
Coral Momentum Fund (Formerly Fund VI)	2,262,741	0.1%		1.75%	1.75%	-10.56%	-10.56%	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%	4.47%	4.47%	-27.08%	-27.08%	-14.90%	-14.90%	-16.04%
Brinson 1998 Partnership Fund	256,887	0.0%		0.36%	0.36%	0.36%	0.36%	255,961	0.0%		0.50%	0.50%	255,768	0.0%		-15.19%	-15.19%	294,954			0.00%	0.00%	-14.46%	-14.46%	15.96%	15.96%	-1.43%	-1.43%	-7.20%
Brinson 1999 Partnership Fund	667,745	0.0%		0.16%	0.16%	0.16%	0.16%	666,661	0.0%		3.06%	3.06%	779,764	0.0%		-8.61%	-8.61%	915,708			0.00%	0.00%	-5.66%	-5.66%	31.40%	31.40%	8.72%	8.72%	0.81%
Brinson 2000 Partnership Fund	2,223,266	0.1%		2.33%	2.33%	2.33%	2.33%	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%	6.74%	6.74%	25.87%	25.87%	14.10%	14.10%	5.38%
Brinson 2001 Partnership Fund	2,521,618	0.2%		4.42%	4.42%	4.42%	4.42%	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%	4.90%	4.90%	26.99%	26.99%	12.44%	12.44%	2.58%
Brinson 2002 Partnership Fund	1,441,145	0.1%		6.46%	6.46%	6.46%	6.46%	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%	12.41%	12.41%	35.32%	35.32%	22.51%	22.51%	3.79%
Brinson 2003 Partnership Fund	466,197	0.0%		2.01%	2.01%	2.01%	2.01%	457,007	0.0%		-0.73%	-0.73%	502,989	0.0%		-6.95%	-6.95%	548,861			0.00%	0.00%	-5.78%	-5.78%	27.79%	27.79%	10.46%	10.46%	-0.59%
Total Brinson Partnership Funds	7,576,857	0.5%		3.50%	3.50%	3.50%	3.50%	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%	4.35%	4.35%	28.13%	28.13%	13.60%	13.60%	3.89%
Brinson 1999 Non-US Partnership Fund	375,136	0.0%		-10.41%	-10.41%	-10.41%	-10.41%	418,726	0.0%		9.23%	9.23%	384,977	0.0%		1.82%	1.82%	481,951			0.00%	0.00%	-0.36%	-0.36%	63.17%	63.17%	18.50%	18.50%	2.79%
Brinson 2000 Non-US Partnership Fund	636,715	0.0%		-2.20%	-2.20%	-2.20%	-2.20%	651,041	0.0%		-6.11%	-6.11%	696,344	0.0%		5.10%	5.10%	759,662			0.00%	0.00%	-3.49%	-3.49%	37.82%	37.82%	12.53%	12.53%	2.59%
Brinson 2001 Non-US Partnership Fund	408,485	0.0%		6.13%	6.13%	6.13%	6.13%	441,476	0.0%		-6.66%	-6.66%	474,976	0.0%		-13.31%	-13.31%	535,869			0.00%	0.00%	-14.12%	-14.12%	19.79%	19.79%	5.11%	5.11%	-7.15%
Brinson 2002 Non-US Partnership Fund	1,499,389	0.1%		-2.94%	-2.94%	-2.94%	-2.94%	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%	-2.78%	-2.78%	46.88%	46.88%	12.99%	12.99%	-1.62%
Brinson 2003 Non-US Partnership Fund	885,865	0.1%		2.72%	2.72%	2.72%	2.72%	967,056	0.1%		-0.94%	-0.94%	1,227,351	0.1%		-13.13%	-13.13%	1,476,327			0.00%	0.00%	-11.60%	-11.60%	48.84%	48.84%	16.11%	16.11%	4.71%
Brinson 2004 Non-US Partnership Fund	679,370	0.0%		-4.14%	-4.14%	-4.14%	-4.14%	708,713	0.0%		-3.20%	-3.20%	791,892	0.1%		-1.11%	-1.11%	816,926			0.00%	0.00%	-8.24%	-8.24%	33.31%	33.31%	9.51%	9.51%	0.91%
Total Brinson Non-US Partnership Fund	4,484,959	0.3%		-1.77%	-1.77%	-1.77%	-1.77%	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%	-6.71%	-6.71%	42.13%	42.13%	12.87%	12.87%	0.73%
Adams Street 2008 Non-US Partnership Fd	1,769,102	0.1%		-1.81%	-1.81%	-1.81%	-1.81%	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%	-1.84%	-1.84%	20.52%	20.52%	3.99%	3.99%	N/A
Brinson BVCF IV	2,117,143	0.1%		23.36%	23.36%	14.96%	14.96%	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%	64.19%	64.19%	183.24%	183.24%	89.31%	89.31%	44.31%
Adams Street Direct Co-investment Fund	9,392,635	0.6%		7.29%	7.29%	2.69%	2.69%	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%	5.82%	5.82%	24.29%	24.29%	14.37%	14.37%	1.24%
Adams Street 2010 Direct Fund	334,253	0.0%		1.93%	1.93%	1.93%	1.93%	273,186	0.0%		6.37%	6.37%	257,916	0.0%		7.45%	7.45%	176,919			4.88%	4.88%	22.19%	22.19%	-7.56%	-7.56%	N/A	N/A	N/A
Adams Street 2010 Non-US Emerging Mkts	59,371	0.0%		-8.83%	-8.83%	-8.83%	-8.83%	51,870	0.0%		-6.80%	-6.80%	49,236	0.0%		-5.91%	-5.91%	33,572			-2.16%	-2.16%	-21.77%	-21.77%	N/A	N/A	N/A	N/A	N/A
Adams Street 2010 Non-US Developed Mkts	459,453	0.0%		-1.82%	-1.82%	-1.82%	-1.82%	418,812	0.0%		5.73%	5.73%	345,678	0.0%		-5.59%	-5.59%	183,125			6.70%	6.70%	4.57%	4.57%	-12.11%	-12.11%	N/A	N/A	N/A
Adams Street 2010 Partnership Fund	935,525	0.1%		1.98%	1.98%	1.98%	1.98%	858,867	0.1%		4.23%	4.23%	796,090	0.0%		2.40%	2.40%	642,200			0.00%	0.00%	8.84%	8.84%	28.46%	28.46%	N/A	N/A	N/A
Total Adams Street 2010 Funds	1,788,602	0.1%		0.56%	0.56%	0.56%	0.56%	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%	8.71%	8.71%	12.70%	12.70%	N/A	N/A	N/A
Matlin Patterson Global Opportunities	4,976	0.0%		-54.62%	-54.62%	-54.62%	-54.62%	10,964	0.0%		0.00%	0.00%	0	0.0%		76.48%	76.48%	126,315			-1.95%	-1.95%	-21.48%	-21.48%	4.39%	4.39%	58.17%	58.17%	-0.76%
Matlin Patterson Global Opportunities II	826,497	0.1%		-27.84%	-27.84%	-27.84%	-27.84%	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%	-79.03%	-79.03%	-43.94%	-43.94%	-53.26%	-53.26%	-45.01%
Matlin Patterson Global Opportunities III	11,464,562	0.7%		34.22%	34.22%	14.19%	14.19%	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%	124.86%	124.86%	1.29%	1.29%	44.50%	44.50%	5.42%
InvestAmerica (Lewis and Clark Fund)	3,362,415	0.2%		6.01%	6.01%	30.62%	30.62%	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%	6.13%	6.13%	8.19%	8.19%	8.60%	8.60%	7.72%
L&C II	3,282,030	0.2%		-3.26%	-3.26%	-0.20%	-0.20%	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%	-3.26%	-3.26%	-7.62%	-7.62%	-10.62%	N/A	N/A
Corsair III (2)	6,076,613	0.4%		0.62%	0.62%	-4.96%	-4.96%	6,014,644	0.4%		5.42%	5.42%	5,702,726	0.4%		-6.77%	-6.77%						-1.10%	-2.14%	7.74%	7.74%	1.97%	1.61%	5.38%
Corsair III - ND Investors LLC (2)	5,204,398	0.3%		1.39%	1.39%	1.63%	1.63%	5,120,715	0.3%		4.12%	4.12%	4,926,875	0.3%		-0.25%	-0.25%						5.30%	5.04%	-0.49%	-0.49%	1.15%	1.06%	N/A
Corsair IV	4,203,470	0.3%		8.42%	8.42%	-4.52%	-4.52%	3,868,204	0.2%		-9.47%	-9.47%	3,298,469	0.2%		-13.96%	-13.96%						-15.55%	-16.03%	-6.69%	-6.69%	N/A	N/A	N/A
Capital International (CIPEF V)	11,769,122	0.7%		3.68%	3.68%	-1.51%	-1.51%	11,338,665	0.7%		-2.79%	-2.79%	11,704,395	0.7%		-4.73%	-4.73%						-4.74%	-4.74%	41.45%	41.45%	13.64%	13.57%	N/A
Capital International (CIPEF VI)	2,108,343	0.1%		12.18%	12.18%	11.44%	11.44%	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
EIG (formerly TCW)	17,666,609	1.1%		0.50%	0.50%	1.03%	1.03%	17,751,642	1.1%		1.40%	1.40%	16,306,058	1.0%		4.31%	4.31%						7.17%	7.17%	12.85%	12.85%	13.10%	13.10%	11.58%
Quantum Resources	4,833,825	0.3%		6.70%	6.70%	-23.05%	-23.05%	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%	-0.85%	-0.85%	95.45%	95.45%	-13.12%	-13.12%	-49.44%
Quantum Energy Partners	4,349,437	0.3%		13.79%	13.79%	1.50%	1.50%	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%	30.29%	30.29%	20.90%	20.90%	16.80%	16.80%	3.54%
Total Private Equity (8)	**104,823,235**	**6.4%**	**5.0%**	**6.54%**	**6.54%**	**0.71%**	**0.71%**	**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%**	**5.12%**	**5.12%**	**14.99%**	**14.99%**	**12.90%**	**12.90%**	**-0.14%**
GLOBAL FIXED INCOME	***374,031,436***	***22.9%***	***22.0%***	***1.98%***	***1.92%***	***1.23%***	***1.21%***	***358,057,591***	***21.4%***	***22.0%***	***3.72%***	***3.64%***	***343,452,980***	***22.0%***	***22.0%***	***0.82%***	***0.74%***	***292,117,051***	***19.5%***										
Benchmark				***1.45%***	***1.45%***	***0.67%***	***0.67%***				***1.63%***	***1.63%***				***2.01%***	***2.01%***												
Domestic Fixed Income	***289,402,761***	***17.7%***	***17.0%***	***2.20%***	***2.15%***	***1.04%***	***1.02%***	***278,976,482***	***16.7%***	***17.0%***	***4.16%***	***4.09%***	***265,856,385***	***17.0%***	***17.0%***	***0.95%***	***0.87%***	***207,741,050***	***13.9%***										
Benchmark				***1.99%***	***1.99%***	***0.65%***	***0.65%***				***1.77%***	***1.77%***				***2.71%***	***2.71%***												
Investment Grade Fixed Income																													
Western Asset	-	0.0%	2.4%	N/A	N/A	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%	N/A	N/A	N/A
Prudential	-	0.0%	0.0%	N/A	N/A	N/A	N/A	1,129,565	0.1%	0.0%	0.11%	0.00%	26,751,031	1.7%	2.0%	1.75%	1.64%	17,459,352	1.2%	1.2%	5.14%	5.03%	N/A	N/A	6.79%	6.49%	N/A	N/A	N/A
PIMCO (DiSCO I) (8)	-	0.0%	0.0%	N/A	N/A	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%	N/A	N/A	N/A
PIMCO (DiSCO II) (8)	32,760,264	2.0%	1.9%	3.44%	3.44%	2.73%	2.73%	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
BC Aggregate				***2.06%***	***2.06%***	***0.04%***	***0.04%***				***0.30%***	***0.30%***				***1.12%***	***1.12%***				***3.82%***	***3.82%***	***7.47%***	***7.47%***	***3.90%***	***3.90%***	***6.93%***	***6.93%***	***6.79%***
Bank of ND	20,635,084	1.3%	1.2%	4.12%	4.11%	-0.57%	-0.57%	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%	9.53%	9.47%	3.77%	3.72%	7.95%	7.89%	7.73%
BC Long Treasuries				***10.57%***	***10.57%***	***-1.36%***	***-1.36%***				***-1.12%***	***-1.12%***				***1.18%***	***1.18%***				***4.74%***	***4.74%***	***15.86%***	***15.86%***	***3.68%***	***3.68%***	***9.62%***	***9.62%***	***8.26%***
PIMCO (Unconstrained)	28,350,948	1.7%	1.4%	3.78%	3.78%	0.77%	0.77%	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
3m LIBOR				***0.00%***	***0.00%***	***0.04%***	***0.04%***				***0.00%***	***0.00%***																	
Declaration (Total Return)	22,898,032	1.4%	1.4%	N/A	N/A	1.17%	1.12%	-	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
3m LIBOR				***0.00%***	***0.00%***	***0.04%***	***0.04%***				***0.00%***	***0.00%***																	
Western Asset	41,712,608	2.6%	2.4%	1.23%	1.19%	0.07%	0.05%	40,809,374	2.4%	2.4%	N/A	N/A	-			0.00%	0.00%	-			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
PIMCO (MBS)	61,223,353	3.8%	3.6%	0.96%	0.93%	0.13%	0.12%	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
BC Mortgage Backed Securities Index				***0.00%***	***0.00%***	***0.12%***	***0.12%***				***0.00%***	***0.00%***																	
Calamos	-	0.0%	0.0%	N/A	N/A	N/A	N/A	10	0.0%	0.0%	N/A	N/A	23,246,801	1.5%	2.0%	4.85%	4.66%	14,737,813	1.0%	1.2%	-10.43%	-10.60%	N/A	N/A	14.20%	13.47%	N/A	N/A	N/A
Merrill Lynch All Convertibles (5)																***4.29%***	***4.29%***				***-12.94%***	***-12.94%***			***22.54%***	***22.54%***	***N/A***	***N/A***	***N/A***
Wells Capital	-	0.0%	0.0%	N/A	N/A	N/A	N/A	146,075	0.0%	0.0%	2.71%	2.63%	26,463,354	1.7%	2.0%	2.39%	2.30%	17,146,348	1.1%	1.2%	2.36%	2.28%	N/A	N/A	8.72%	8.50%	N/A	N/A	N/A
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%***	***N/A***	***N/A***	***N/A***
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%	1.72%							
Total Investment Grade Fixed Income	**207,580,289**	**12.7%**	**12.0%**	**2.27%**	**2.24%**	**0.65%**	**0.64%**	**196,965,183**	**11.8%**	**12.0%**	**2.86%**	**2.80%**	**191,300,811**	**12.2%**	**12.0%**	**0.15%**	**0.08%**	**201,040,121**	**13.4%**	**12.0%**	**0.85%**	**0.77%**	**6.24%**	**6.01%**	**6.22%**	**5.90%**	**6.53%**	**5.91%**	**4.55%**
BC Aggregate				***2.06%***	***2.06%***	***0.04%***	***0.04%***				***0.30%***	***0.30%***				***1.12%***	***1.12%***				***3.82%***	***3.82%***	***7.47%***	***7.47%***	***3.90%***	***3.90%***	***6.93%***	***6.93%***	***6.79%***

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF JUNE 30, 2012

	June-12							March-12					December-11					September-11					Current Fiscal YTD		Prior FY11		3 Years Ended 6/30/2012		5 Years Ended 6/30/2012
		Allocation		Quarter		Month			Allocation		Quarter			Allocation		Quarter			Allocation		Quarter								
	Market Value	Actual	Policy	Gross (8)	Net	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	Net
Below Investment Grade Fixed Income																													
Loomis Sayles	68,665,626	4.2%	4.2%	0.34%	0.21%	2.12%	2.08%	68,619,051	4.1%	4.2%	10.06%	9.93%	59,568,229	3.8%	4.0%	2.99%	2.86%	72,941,922	4.9%	4.6%	-9.81%	-9.92%	2.57%	2.07%	19.59%	19.08%	16.71%	16.20%	6.96%
Goldman Sachs 2006 Fund (8)	1,853,658	0.1%	0.1%	-0.83%	-0.83%	0.18%	0.18%	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%	-20.28%	-20.28%	29.53%	29.53%	31.00%	31.00%	-2.25%
Goldman Sachs Fund V (8)	4,556,965	0.3%	0.3%	10.87%	10.87%	2.29%	2.29%	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%	7.04%	7.04%	24.39%	24.39%	22.19%	22.19%	N/A
EIG (formerly TCW)																		16,389,714	1.1%	1.1%	0.82%	0.82%							
PIMCO (8)	6,746,223	0.4%	0.4%	15.62%	15.62%	1.33%	1.33%	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%	5.54%	5.54%	15.18%	15.18%	30.43%	30.43%	N/A
Total Below Investment Grade Fixed Income	**81,822,473**	**5.0%**	**5.0%**	**2.08%**	**1.97%**	**2.02%**	**1.99%**	**82,011,299**	**4.9%**	**5.0%**	**7.55%**	**7.45%**	**74,555,574**	**4.8%**	**5.0%**	**1.02%**	**0.92%**	**108,801,795**	**7.3%**	**7.0%**	**-6.72%**	**-6.80%**	**3.45%**	**3.06%**	**18.22%**	**17.88%**	**17.33%**	**16.95%**	**3.99%**
LB High Yield 2% Issuer Constrained Index				1.79%	1.79%	2.11%	2.11%				5.35%	5.35%				6.48%	6.48%				-6.10%	-6.10%	7.21%	7.21%	15.53%	15.53%	16.20%	16.20%	8.62%
International Fixed Income	**84,628,675**	**5.2%**	**5.0%**	**1.18%**	**1.09%**	**1.91%**	**1.88%**	**79,081,108**	**4.7%**	**5.0%**	**2.26%**	**2.17%**	**77,596,596**	**5.0%**	**5.0%**	**0.39%**	**0.30%**	**84,376,001**	**5.6%**										
Benchmark				-0.38%	-0.38%	0.74%	0.74%				1.16%	1.16%				-0.36%	-0.36%												
Developed Investment Grade Int'l FI																													
UBS Global (Brinson)	41,767,538	2.6%	2.5%	0.08%	0.01%	0.18%	0.15%	37,278,661	2.2%	2.5%	0.86%	0.79%	37,096,709	2.4%	2.5%	-0.27%	-0.35%	37,866,434	2.5%	2.5%	-1.52%	-1.60%	-0.87%	-1.16%	16.30%	16.01%	5.36%	5.05%	6.72%
BC Global Aggregate ex-US (6)				-0.38%	-0.38%	0.74%	0.74%				1.16%	1.16%				-0.36%	-0.36%				-1.05%	-1.05%	-0.64%	-0.64%	15.39%	15.39%	5.23%	5.23%	7.45%
Brandywine	42,861,137	2.6%	2.5%	2.26%	2.17%	3.66%	3.63%	41,802,447	2.5%	2.5%	3.54%	3.44%	40,499,887	2.6%	2.5%	0.93%	0.83%	46,509,567	3.1%	2.5%	2.62%	2.52%	9.67%	9.25%	15.43%	15.01%	13.36%	12.95%	9.36%
BC Global Aggregate (ex-US)				0.62%	0.62%	0.48%	0.48%				0.87%	0.87%				0.23%	0.23%				0.97%	0.97%	2.73%	2.73%	10.51%	10.51%	6.31%	6.31%	7.11%
Total Developed Investment Grade Int'l FI	**84,628,675**	**5.2%**	**5.0%**	**1.18%**	**1.09%**	**1.91%**	**1.88%**	**79,081,108**	**4.7%**	**5.0%**	**2.26%**	**2.17%**	**77,596,596**	**5.0%**	**5.0%**	**0.39%**	**0.30%**	**84,376,001**	**5.6%**	**5.0%**	**0.72%**	**0.63%**	**4.61%**	**4.25%**	**15.78%**	**15.42%**	**9.76%**	**9.40%**	**8.29%**
BC Global Aggregate ex-US				-0.38%	-0.38%	0.74%	0.74%				1.16%	1.16%				-0.36%	-0.36%				-1.05%	-1.05%	-0.64%	-0.64%	15.39%	15.39%	5.23%	5.23%	7.45%
GLOBAL REAL ASSETS	317,125,304	19.4%	20.0%	0.97%	0.91%	0.85%	0.83%	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				1.46%	1.46%	0.43%	0.43%				1.85%	1.85%				1.43%	1.43%												
Global Real Estate																													
INVESCO - Core	59,414,764			1.69%	1.59%	1.69%	1.66%	59,388,276			1.77%	1.67%	60,278,266			3.11%	3.00%	72,286,030			2.12%	2.02%	8.97%	8.54%	25.88%	25.42%	8.03%	7.54%	-1.28%
INVESCO - Fund II (8)	17,036,558			6.40%	6.40%	5.96%	5.96%	18,296,321			5.90%	5.90%	17,828,694			14.22%	14.22%	19,278,169			0.00%	0.00%	28.70%	28.70%	56.89%	56.89%	-3.10%	-3.10%	N/A
INVESCO - Fund III (9)	9,215,314			N/A	N/A	-2.11%	-2.11%	-			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
INVESCO - Asia Real Estate Fund (8)	8,819,195			4.52%	4.52%	0.00%	0.00%	8,568,381			0.00%	0.00%	4,822,115			-3.28%	-3.28%	6,157,603			0.00%	0.00%	1.09%	1.09%	-8.21%	-8.21%	-22.90%	-22.90%	N/A
J.P. Morgan Strategic & Special Funds	53,006,310			2.33%	2.11%	0.95%	0.87%	52,720,926			2.95%	2.73%	52,968,645			3.86%	3.64%	63,118,219			3.57%	3.35%	13.33%	12.37%	20.79%	19.79%	8.42%	7.42%	-2.25%
J.P. Morgan Alternative Property Fund	7,825,542			4.98%	4.91%	7.08%	7.05%	7,810,972			18.90%	18.83%	6,995,702			2.32%	2.25%	8,556,491			0.00%	-0.07%	27.71%	27.38%	5.26%	4.66%	2.93%	2.15%	-9.30%
J.P. Morgan Greater Europe Fund (8)	3,770,667			-100.00%	-100.00%	-0.79%	-0.79%	153,190			2.02%	2.02%	1,808,710			2052.80%	2052.80%	122,037			5.68%	5.68%	-100.01%	-100.01%	594.34%	594.34%	N/A	N/A	N/A
J.P. Morgan Greater China Property Fund (8)	11,222,084			-6.19%	-6.19%	-1.68%	-1.68%	11,500,394			2.12%	2.12%	11,628,273			0.00%	0.00%	14,370,637			0.00%	0.00%	-4.20%	-4.20%	17.03%	17.03%	3.62%	3.62%	N/A
Total Global Real Estate	**170,310,434**	**10.4%**	**10.0%**	**1.83%**	**1.72%**	**1.60%**	**1.56%**	**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%**	**12.97%**	**12.46%**	**24.11%**	**23.49%**	**7.34%**	**6.72%**	**-2.97%**
NCREIF TOTAL INDEX				2.68%	2.68%	0.89%	0.89%				2.59%	2.59%				2.96%	2.96%				3.30%	3.30%	12.04%	12.04%	16.73%	16.73%	8.82%	8.82%	2.51%
Timber																													
TIR - Teredo (7)	33,692,564	2.1%		-3.67%	-3.67%	-2.97%	-2.97%	34,761,374	2.1%		1.22%	1.22%	34,265,741	2.2%		-0.27%	-0.27%						-2.76%	-2.76%	6.66%	6.66%	4.79%	4.79%	8.28%
TIR - Springbank	54,301,748	3.3%		-0.09%	-0.09%	0.09%	0.09%	54,025,738	3.2%		-4.65%	-4.65%	56,542,163	3.6%		-0.80%	-0.80%						-5.48%	-5.48%	-1.08%	-1.08%	-8.06%	-8.06%	-1.70%
Total Timber	**87,994,312**	**5.4%**	**5.0%**	**-1.49%**	**-1.49%**	**-1.11%**	**-1.11%**	**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)				0.61%	0.61%	0.20%	0.20%				0.36%	0.36%				0.51%	0.51%						1.49%	1.49%	0.51%	0.51%	-3.83%	-0.56%	4.43%
Infrastructure																													
JP Morgan (Asian)	7,499,768	0.5%		1.61%	1.61%	-6.08%	-6.08%	7,471,428	0.4%		-3.03%	-3.03%	9,086,751	0.6%		-2.46%	-2.46%						-4.29%	-4.29%	2.73%	2.73%	-0.51%	-0.68%	N/A
JP Morgan (IIF)	40,423,140	2.5%		-1.52%	-1.83%	-1.52%	-1.62%	41,478,832	2.5%		2.88%	2.56%	35,521,601	2.3%		1.09%	0.78%						4.51%	3.22%	7.19%	5.67%	5.87%	4.40%	-0.91%
Credit Suisse	10,897,650	0.7%		-1.20%	-1.20%	-0.77%	-0.77%	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
Total Infrastructure (8)	**58,820,558**	**3.6%**	**5.0%**	**-1.05%**	**-1.28%**	**-2.04%**	**-2.12%**	**57,074,406**	**3.4%**	**5.0%**	**3.64%**	**3.41%**	**50,643,636**	**3.2%**	**5.0%**	**-0.73%**	**-0.98%**												
CPI				-0.12%	-0.12%	-0.25%	-0.25%				1.86%	1.86%				-0.68%	-0.68%												
Cash Equivalents																													
Northern Trust STIF	21,079,312			0.02%	0.02%	0.01%	0.01%	12,158,490			0.01%	0.01%	19,477,882			0.04%	0.04%	9,035,342			0.06%	0.06%	0.13%	0.13%	0.12%	0.12%	0.14%	0.14%	0.42%
Total Cash Equivalents	**21,079,312**	**1.3%**	**1.0%**	**0.02%**	**0.02%**	**0.01%**	**0.01%**	**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%**	**0.13%**	**0.13%**	**0.16%**	**0.16%**	**0.19%**	**0.19%**	**0.46%**
90 Day T-Bill				0.03%	0.03%	0.01%	0.01%				0.01%	0.01%				0.00%	0.00%				0.02%	0.02%	0.06%	0.06%	0.17%	0.17%	0.13%	0.13%	0.99%

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.

AGENDA

NORTH DAKOTA STATE INVESTMENT BOARD MEETING

FRIDAY, SEPTEMBER 28, 2012, 8:30 AM
PEACE GARDEN ROOM
STATE CAPITOL
BISMARCK ND

I. APPROVAL OF AGENDA

II. APPROVAL OF MINUTES (AUGUST 24, 2012)

III. INVESTMENTS

A. Legacy Fund - Asset Allocation/Spending Study Consultant Presentations:

1. Towers Watson - (45 min)
2. Mercer - (45 min)
3. RV Kuhns - (45 min)
4. Callan - (45 min)

Selection of Consulting Firm - Mr. Schulz (to follow) (15 min)

B. Tribune Company - Ms. Murtha (5 min)

IV. GOVERNANCE

A. Discussion on Structure of Retirement and Investment Office

V. MONITORING

A. Pension Trust and Insurance Trust FY2012 Performance Review - Mr. Schulz (Board acceptance needed) (45 min)

VI. OTHER

Next Meetings:

SIB meeting - October 26, 2012, 8:30 a.m. - Peace Garden Room, State Capitol
SIB Audit Committee meeting - September 28, 2012, 1:00 p.m. - Peace Garden Room, State Capitol

VII. ADJOURNMENT

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JUNE 22, 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 Howard Sage, PERS Board (teleconference) Kelly Schmidt, State Treasurer Cindy Ternes, Workforce Safety & Insurance Bob Toso, TFFR Board
STAFF PRESENT:	Connie Flanagan, Fiscal & Investment Officer Bonnie Heit, Office Manager Fay Kopp, Interim Executive Director Leslie Moszer, Compliance Officer Darren Schulz, Interim CIO Susan Walcker, Investment Accountant
OTHERS PRESENT:	Jeff Engleson, Land Dept. Ben Lazarus, Clifton Group Tom Lee, Clifton Group Jan Murtha, Attorney General's Office Tricia Opp, Procurement Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, June 22, 2012, at the Peace Garden Room, State Capitol, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

A revised agenda was provided to the board.

MS. TERNES MOVED AND MR. CORNEIL SECONDED TO ACCEPT THE REVISED 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 May 18, 2012 meeting.

COMMISSIONER GAEBE MOVED AND MR. SANDAL SECONDED TO APPROVE THE MAY 18, 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:

Clifton Group - Representatives provided an over view of the firm, reviewed the firm's mandates with the SIB, and also reviewed their defensive equity strategy.

GOVERNANCE:

Executive Compensation Review Committee - The Executive Compensation Review Committee consisting of Mr. Sandal, Chair, Treasurer Schmidt, and Mr. Toso received direction from the SIB at their May 18, 2012, meeting to review compensation adjustments for the Interim Chief Investment Officer and Interim Executive Director and bring their recommendations back to the SIB. Any adjustments in compensation would be retroactive to June 1, 2012.

The Committee met on June 1, 2012, and recommended Mr. Schulz, Interim Chief Investment Officer, receive a temporary monthly salary increase of 15 percent based on his July 1, 2012, salary retroactive to June 1, 2012. The Committee also recommended Ms. Kopp, Interim Executive Director, receive a temporary monthly salary increase of 7.5 percent based on her July 1, 2012, salary retroactive to June 1, 2012. The Committee is basing their recommendations on the different roles of the two positions in the interim.

After discussion,

COMMISSIONER GAEBE MOVED AND MR. ERDMANN SECONDED TO ACCEPT THE EXECUTIVE COMPENSATION REVIEW COMMITTEE'S RECOMMENDATION AND GRANT THE INTERIM CHIEF INVESTMENT OFFICER A TEMPORARY 15 PERCENT INCREASE, BASED ON HIS JULY 1, 2012, SALARY, RETROACTIVE TO JUNE 1, 2012. THE COMMITTEE ALSO RECOMMENDED THE INTERIM EXECUTIVE DIRECTOR BE GRANTED A TEMPORARY 7.5 PERCENT INCREASE BASED ON HER JULY 1, 2012, SALARY RETROACTIVE TO JUNE 1, 2012.

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

Search Committee - Search Committee members consisting of Lt. Governor Wrigley, Chair, Treasurer Schmidt, Commissioner Gaebe, Mr. Sandal, and Mr. Toso were directed by the SIB at their May 18, 2012, meeting to conduct an exit interview with Mr. Geissinger and to bring back their recommendations which they have derived from the interview to assist the SIB in determining what the next steps will be in replacing the Executive Director/CIO of the Retirement and Investment Office (RIO). Discussions with Mr. Geissinger included the current structure of RIO, replacement process of the Executive Director/CIO, recruitment of an Executive Director/CIO versus a CIO. Mr. Geissinger also stated issues in the investment portfolios to monitor in the interim include the international structure, manager consolidations, and the private equity allocation. He also stated the Callan contract needs to be revised to more accurately reflect the needs of the SIB and staff. The Committee and Mr. Geissinger both concurred that the SIB and RIO are well positioned in the interim. The SIB, as administrative board to RIO, has the time to study and look at the structure of RIO to determine if changes are warranted. The Search Committee's next meeting is scheduled for June 28, 2012. Minutes from the Search Committee's meetings will be distributed to the SIB, PERS, and TFFR boards to keep the entities aware of the process and the discussions that are taking place to give them the opportunity to provide their input.

The Board recessed at 10:00 am and reconvened at 10:10 am.

INVESTMENTS:

Blackfriars - Mr. Schulz updated the Board on the Blackfriars transition. At the May 18, 2012, meeting the Board authorized termination of the firm. Mr. Schulz reported a full redemption was entered as of May 31, 2012 based on the value of the assets at the time. The cash proceeds from that liquidation were received on June 8, 2012. Staff is transitioning the assets to The Northern Trust Global Investments who will manage the funds in a passively managed MSCI emerging markets mandate.

Pension Trust Asset Allocation - Ms. Flanagan updated the Board on the Pension Trust asset allocation. All participants in the Pension Trust either have made changes or are in the process of finalizing their asset allocation so all participants have the same format.

Manager Catalog - Ms. Flanagan reviewed a manager catalog which is a reference that lists all of the SIB's current managers and their mandate as well as those that no longer manage funds.

State Street - Mr. Schulz and Treasurer Schmidt conducted a regularly scheduled review with State Street representatives. State Street currently manages an international equity mandate in the Pension Trust. Mr. Schulz and Treasurer Schmidt learned that the current investment process had been changed. State Street's performance has also been a concern and there have been changes in key personnel. Their mandate is to exceed the MSCI EAFE Index by 2-3% which they have failed to do since the inception of the mandate in September 2005. Mr. Schulz recommended State Street be placed under review. State Street will be looked at more closely as Mr. Schulz continues his work on restructuring the international equity portfolio.

TREASURER SCHMIDT MOVED AND COMMISSIONER HAMM SECONDED TO PLACE STATE STREET UNDER REVIEW DUE TO UNCERTAINTY REGARDING RECENT INVESTMENT PROCESS CHANGES, SUBSTANDARD PERFORMANCE, AND CHANGES IN PERSONNEL.

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

Legacy Fund - Mr. Schulz met with the Legacy and Budget Stabilization Fund Advisory Board on June 18, 2012. Mr. Schulz was asked to provide a summary of the investment history and returns of the Legacy Fund and Budget Stabilization Fund. He was also asked to provide specific recommendations to the Advisory Board regarding asset allocations. Both Mr. Geissinger and Callan Associates were previously assisting the Advisory Board regarding specific asset allocations because the Legacy Fund was first established in 2010. Mr. Schulz reviewed with the Advisory Board the Legacy Fund mission, objectives, and constraints and also the investment process when formatting an investment policy.

The Board discussed the Advisory Board's role and their relationship to the SIB. Staff will meet with Ms. Murtha to discuss and clarify the role of the SIB as it relates to the Legacy and Budget Stabilization Advisory Board. Staff will follow up with Lt. Governor Wrigley.

Lt. Governor Wrigley left the meeting and Mr. Sandal proceeded over the remainder of the meeting.

Tribune Company - Ms. Murtha updated the Board on the proceedings of the Tribune Company litigation. North Dakota is part of the adversary proceedings relating to the Tribune Company bankruptcy filing. There were a number of state law claims filed across the country that were not part of the proceedings. The various jurisdictions felt a uniform approach to all of the related proceedings would be beneficial to all of the parties involved. The adversary proceedings as well as all of the state law claims were combined into a multidistrict litigation and are now in New York rather than Delaware for better management. North Dakota is still only involved in the adversary proceedings relating to the bankruptcy. Stock holders who received $50,000 or less from the proceeds of the buyout were dismissed from the action. North Dakota received well in excess of $50,000 so North Dakota is not dismissed. The stay that had been in place until June has been extended until July. Ms. Murtha will continue to keep the SIB informed.

TREASURER SCHMIDT MOVED AND MR. ERDMANN SECONDED TO RECEIVE THE REPORTS ON BLACKFRIARS, PENSION TRUST ASSET ALLOCATION, MANAGER CATALOG, AND THE TRIBUNE COMPANY.

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

The next SIB meeting is scheduled for July 27, 2012, at 8:30 a.m., at Workforce Safety and Insurance, 1600 E. Century, 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.

ADJOURNMENT:

Mr. Sandal adjourned the meeting at 10:55 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
JULY 27, 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 Howard Sage, PERS Board Kelly Schmidt, State Treasurer Cindy Ternes, Workforce Safety & Insurance Bob Toso, TFFR Board
STAFF PRESENT:	Bonnie Heit, Office Manager Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO Susan Walcker, Investment Accountant
OTHERS PRESENT:	Nedra Hadley, Brandywine Jack McIntyre, Brandywine Jan Murtha, Attorney General's Office Tricia Opp, Procurement Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:35 a.m. on Friday, July 27, 2012, at Workforce Safety & Insurance, 1600 East Century, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

MR. CORNEIL MOVED AND MR. SANDAL SECONDED TO ACCEPT THE JULY 27, 2012, AGENDA AS PRESENTED.

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 June 22, 2012, meeting.

TREASURER SCHMIDT MOVED AND COMMISSIONER HAMM SECONDED TO APPROVE THE JUNE 22, 2012, MINUTES.

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

ELECTION OF SIB OFFICERS:

COMMISSIONER GAEBE MOVED AND MR. SAGE SECONDED TO CONTINUE WITH THE CURRENT LEADERSHIP OF THE SIB FOR FISCAL YEAR 2012-13; LT. GOVERNOR WRIGLEY, CHAIR, MR. SANDAL, VICE CHAIR, AND MR. CORNEIL, PARLIAMENTARIAN.

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

SIB AUDIT COMMITTEE MEMBERSHIP:

TREASURER SCHMIDT MOVED AND MR. ERDMANN SECONDED TO CONTINUE WITH THE CURRENT MEMBERSHIP OF THE SIB AUDIT COMMITTEE FOR FISCAL YEAR 2012-13; MS. BECKY DORWART, MR. GESSNER, MR. LONNY MERTZ, MR. SANDAL, AND MS TERNES.

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

EDUCATION:

Brandywine - Representatives provided an overview of the firm, reviewed their SIB mandate, and also provided their perspective on the global economy.

Mr. Schulz provided an educational segment on global equity structuring. Mr. Schulz will continue to discuss options with the board on restructuring the SIB equity portfolio.

The Board recessed at 10:55 a.m. and reconvened at 11:05 a.m.

GOVERNANCE:

Search Committee - Lt. Governor Wrigley stated a letter was sent to all SIB clients on July 11, 2012 informing them of the interim leadership of RIO and that the SIB is taking some time to look at the current structure of RIO and welcomes any input or questions that they may have.

Lt. Governor Wrigley also mentioned Search Committee members Treasurer Schmidt, Mr. Sandal, and State Procurement representative, Ms. Opp, are currently working on updating the Request for Proposal (RFP) for an executive search firm.

Discussion by the SIB on the structure of RIO will be placed on their August 24, 2012, agenda.

Code of Conduct Certification - The SIB was provided a copy of their Governance policy, Board Members' Code of Conduct. As outlined in the policy, board members are annually required to affirm their understanding of the policy by signing and dating the acknowledgement.

Audit Committee Liaison Report - Mr. Gessner reported on Audit Committee activity from its June 22, 2012 meeting. Mr. Gessner stated Mr. Thomas Rey, CliftonLarsonAllen, presented the audit scope and approach for the FY2012 audit of RIO. The results of the audit will be reviewed with the Audit Committee at their November 16, 2012, meeting.

The auditing of the school districts is on track. The goal is to audit all school districts who have at least 10 members within a five year period.

MR. ERDMANN MOVED AND COMMISSIONER HAMM SECONDED TO ACCEPT THE REPORT ON AUDIT COMMITTEE ACTIVITIES.

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

INVESTMENTS:

State Street - Mr. Schulz stated he is continuing to closely monitor State Street as a result of changes in the SIB mandate, key personnel, and performance issues. Mr. Schulz anticipates bringing a recommendation on State Street for the Board's consideration to the next meeting.

The Board questioned Callan's perspective on State Street and Mr. Schulz will follow up with Callan and report back to the board.

Tribune Company - Ms. Murtha updated the board on the legal proceedings. The time frames for motions to dismiss will be held in a two phase process. Phase one will be applicable to the larger investment defendants and should conclude early 2013. Phase two will follow and represent the remaining smaller investment defendants. Ms. Murtha will discuss with the board litigation strategies at the August or September 2012 SIB meetings.

Legacy Fund - Lt. Governor Wrigley, Mr. Schulz, and Senator Randel Christmann, Chairman of the Budget Stabilization and Legacy Fund Advisory Board (Advisory Board), met to discuss the role of staff, the SIB, and the Advisory Board if an asset allocation study is conducted for the Legacy Fund. The asset allocation study would be spearheaded by the Advisory Board with the SIB, as governing body to the Advisory Board, ultimately approving the process and expenses.

Tamale RMS - Mr. Schulz informed the board he has been looking at research management software solutions that would assist staff in managing the data received from the SIB money managers and would also enhance staff's ability to capture, distribute, and research the data. Mr. Schulz learned of the capabilities of Tamale RMS software through CliftonLarsonAllen and is working with RIO information technology staff on possible implementation.

MONITORING:

The following monitoring reports for the quarter ending June 30, 2012 were provided to the board for their acceptance - Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program and Retirement Program.

MR. SAGE MOVED AND MR. ERDMANN SECONDED TO ACCEPT THE MONITORING REPORTS FOR THE QUARTER ENDING JUNE 30, 2012.

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

The next SIB meeting is scheduled for August 24, 2012, at 8:30 a.m., at the State Capitol, Peace Garden Room, Bismarck ND.

The next SIB Audit Committee meeting is scheduled for September 28, 2012, at 1:00 p.m., at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

Lt. Governor Wrigley adjourned the meeting at 11:50 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
AUGUST 24, 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 Howard Sage, PERS Board Cindy Ternes, Workforce Safety & Insurance Bob Toso, TFFR Board
ABSENT:	Kelly Schmidt, State Treasurer
STAFF PRESENT:	Bonnie Heit, Office Manager Fay Kopp, Interim Executive Director Leslie Moszer, Compliance Officer Darren Schulz, Interim CIO Susan Walcker, Investment Accountant
OTHERS PRESENT:	Greg Burns, NDEA Paul Erlendson, Callan Associates Bill Howard, Callan Associates Jan Murtha, Attorney General's Office Tricia Opp, Procurement Office Bryan Reinhardt, PERS

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, August 24, 2012, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

MR. CORNEIL MOVED AND MS. TERNES SECONDED TO ACCEPT THE AUGUST 24, 2012, AGENDA AS PRESENTED.

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

MINUTES:

The minutes were considered from the July 27, 2012, meeting.

MR. GESSNER MOVED AND COMMISSIONER GAEBE SECONDED TO ACCEPT THE JULY 27, 2012, MINUTES AS WRITTEN.

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

MONITORING:

Pension Trust and Insurance Trust – Mr. Erlendson and Mr. Howard reviewed the performance of the Pension Trust and the Insurance Trust for the quarter ending June 30, 2012.

MR. CORNEIL MOVED AND MR. ERDMANN SECONDED TO ACCEPT CALLAN'S PERFORMANCE MEASUREMENT REPORTS FOR THE QUARTER ENDING JUNE 30, 2012.

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

Compliance Reports - Ms. Moszer reviewed the following compliance reports for FY2012 for the SIB investment managers; Certification of Compliance with Investment Guidelines, Exceptions to Investment Guidelines, and SSAE 16 Reports.

MS. TERNES MOVED AND COMMISSIONER GAEBE SECONDED TO ACCEPT THE COMPLIANCE REPORTS FOR FY2012.

AYES: 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
ABSENT: TREASURER SCHMIDT

The Board recessed at 10:00 a.m. and reconvened at 10:10 a.m.

INVESTMENTS:

Callan Contract **–** Mr. Schulz and Mr. Erlendson are in the process of reviewing Callan's contract to expand the scope of services from which is currently being provided. After discussion,

MS. TERNES MOVED AND MR. SAGE SECONDED TO DIRECT STAFF TO CONTINUE WORKING ON BRINGING FORTH A PROPOSAL ON THE CALLAN CONTRACT.

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

Legacy Fund – Mr. Schulz and Ms. Flanagan attended the Budget Stabilization and Legacy Fund Advisory Board (Advisory Board) meeting on August 23, 2012. Mr. Schulz provided an update on the recruitment status of the Chief Investment Officer, provided investment history and returns through June 2012 for the Legacy Fund and Budget Stabilization Fund, reviewed the rationale for conducting an asset allocation and spending study and also provided his recommendations and next steps to move forward on the study.

The Advisory Board took formal action and recommended the SIB arrange to contract with an investment consultant to conduct a study on the appropriate asset class mix for the Legacy Fund.

Staff requested authorization to solicit proposals from investment consulting firms to conduct the asset allocation study and determine expenses to conduct the study. The SIB, as governing body of the Legacy Fund, will interview the finalists and select a firm.

MR. SANDAL MOVED AND MR. GESSNER SECONDED TO AUTHORIZE STAFF TO SOLICITE PROPOSALS AND COSTS FROM INVESTMENT CONSULTING FIRMS TO CONDUCT AN ASSET ALLOCATION STUDY OF THE LEGACY FUND.

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

Credit Suisse – Mr. Schulz informed the board Credit Suisse Bank is selling the customized infrastructure investment group of Credit Suisse because of Basel III requirements which regulates assets be raised in excess of $2 billion. The plan is to sell this entity by the end of the year. The SIB committed $50 million in the Pension Trust and $25 million in the Insurance Trust with 50 percent currently drawn from each entity.

Mr. Erlendson also informed the board Trust Company of the West (TCW) is being acquired by The Carlyle Group and existing TCW management from Société Générale. The SIB committed $45 million in the Pension Trust to their mezzanine debt product. TCW is expecting the transaction to close during the first quarter of 2013.

Mr. Schulz and Callan Associates will continue to monitor the acquisitions and will keep the SIB updated.

GOVERNANCE:

Search Committee **–** There was no new information to report from the Search Committee.

Retirement and Investment Office (RIO) Structure – Trustees briefly discussed the organizational structure of RIO and the Legislature’s intent when the office was created during the 1989 Legislative session. The Teachers’ Fund for Retirement (TFFR) board will discuss the structure of RIO at their September 27, 2012 meeting and will report back to the SIB at their September 28, 2012, meeting.

Lt. Governor Wrigley left the meeting during the RIO structure discussion and Mr. Sandal presided over the remainder of the meeting.

The next SIB meeting is scheduled for September 28, 2012, at 8:30 a.m., at the State Capitol, Peace Garden Room, Bismarck ND.

The next SIB Audit Committee meeting is scheduled for September 28, 2012, at 1:00 p.m., at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

Mr. Sandal adjourned the meeting at 11:20 a.m.

Respectfully Submitted:

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Lt. Governor Wrigley, Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

BUDGETING / FINANCIAL CONDITION

AS OF JUNE 30, 2012

	2011-2013 BUDGET	ADJUSTED APPROPRIATION	EXPENDITURES BIENNIUM TO DATE ACTUAL	BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	$ 3,203,114.00	$ 3,203,114.00	$ 1,415,861.92	$ 1,787,252.08	55.80%	50.00%
OPERATING EXPENDITURES	947,840.00	947,840.00	434,456.85	513,383.15	54.16%	50.00%
CONTINGENCY	82,000.00	82,000.00	0.00	82,000.00	100.00%	50.00%
TOTAL	$ 4,232,954.00	$ 4,232,954.00	$ 1,850,318.77	2,382,635.23	56.29%	50.00%

ND RETIREMENT AND INVESTMENT OFFICE
EXPENDITURE REPORT
AS OF JUNE 30, 2012

		2011-13 BIENNIUM-TO - DATE
CONTINUING APPROPRIATIONS		
INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL)	$	35,135,041.46
MEMBER CLAIMS		
1. ANNUITY PAYMENTS		135,250,568.00
2. REFUND PAYMENTS		2,479,194.00
TOTAL MEMBER CLAIMS		137,729,762.00
OTHER CONTINUING APPROPRIATIONS		276,040.23
TOTAL CONTINUING APPROPRIATIONS		173,140,843.69
BUDGETED EXPENDITURES		
1. SALARIES & BENEFITS		
SALARIES		1,070,350.00
OVERTIME/TEMPORARY		0.00
TERMINATION SALARY & BENEFITS		0.00
FRINGE BENEFITS		345,511.92
TOTAL SALARY & BENEFITS		1,415,861.92
2. OPERATING EXPENDITURES		
DATA PROCESSING		73,762.64
TELECOMMUNICATIONS - ISD		12,172.19
TRAVEL		27,956.58
IT - SOFTWARE/SUPPLIES		242.86
POSTAGE SERVICES		31,477.97
IT - CONTRACTUAL SERVICES		155,762.04
EQUIPMENT RENTS AND LEASES		0.00
BUILDING/LAND RENT & LEASES		77,982.96
DUES & PROF. DEVELOPMENT		11,700.50
OPERATING FEES & SERVICES		13,719.95
REPAIR SERVICE		349.00
PROFESSIONAL SERVICES		10,620.00
INSURANCE		1,032.77
OFFICE SUPPLIES		1,398.97
PRINTING		9,595.38
PROFESSIONAL SUPPLIES & MATERIAI		2,592.25
MISCELLANEOUS SUPPLIES		863.80
IT EQUIPMENT UNDER $5000		19.99
OTHER EQUIPMENT UNDER $5000		3,207.00
TOTAL OPERATING EXPENDITURES		434,456.85
3. CONTINGENCY		0.00
TOTAL BUDGETED EXPENDITURES		1,850,318.77
TOTAL EXPENDITURES	$	174,991,162.46

Schedule of Consultant Expenses
Pension and Investment Trust Funds
For the Fiscal Years Ended June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Actuary fees:				
Gabriel, Roeder, Smith & Co.	$ -	$ 254,291	$ -	$ -
Segal Company	93,777	-	-	-
Auditing fees:				
CliftonLarsonAllen LLC	44,755	-	24,220	-
Eide Bailly, P.C.	(5,461)	46,768	(2,789)	23,882
CliftonGunderson LLC	-	24,379	-	53,271
Total Auditing Fees	39,294	71,147	21,431	77,153
Disability consulting fees:				
Dr. G.M. Lunn	300	500	-	-
Legal fees:				
Calhoun Law Group P.C.	5,748	16,348	-	-
K&L Gates LLP	6,778	136,904	8,471	261,400
Jenner & Block	978	13,268	1,903	25,102
ND Attorney General	15,098	20,279	13,808	18,973
Total legal fees:	28,602	186,799	24,183	305,475
Total consultant expenses	$ 161,973	$ 512,737	$ 45,614	$ 382,628

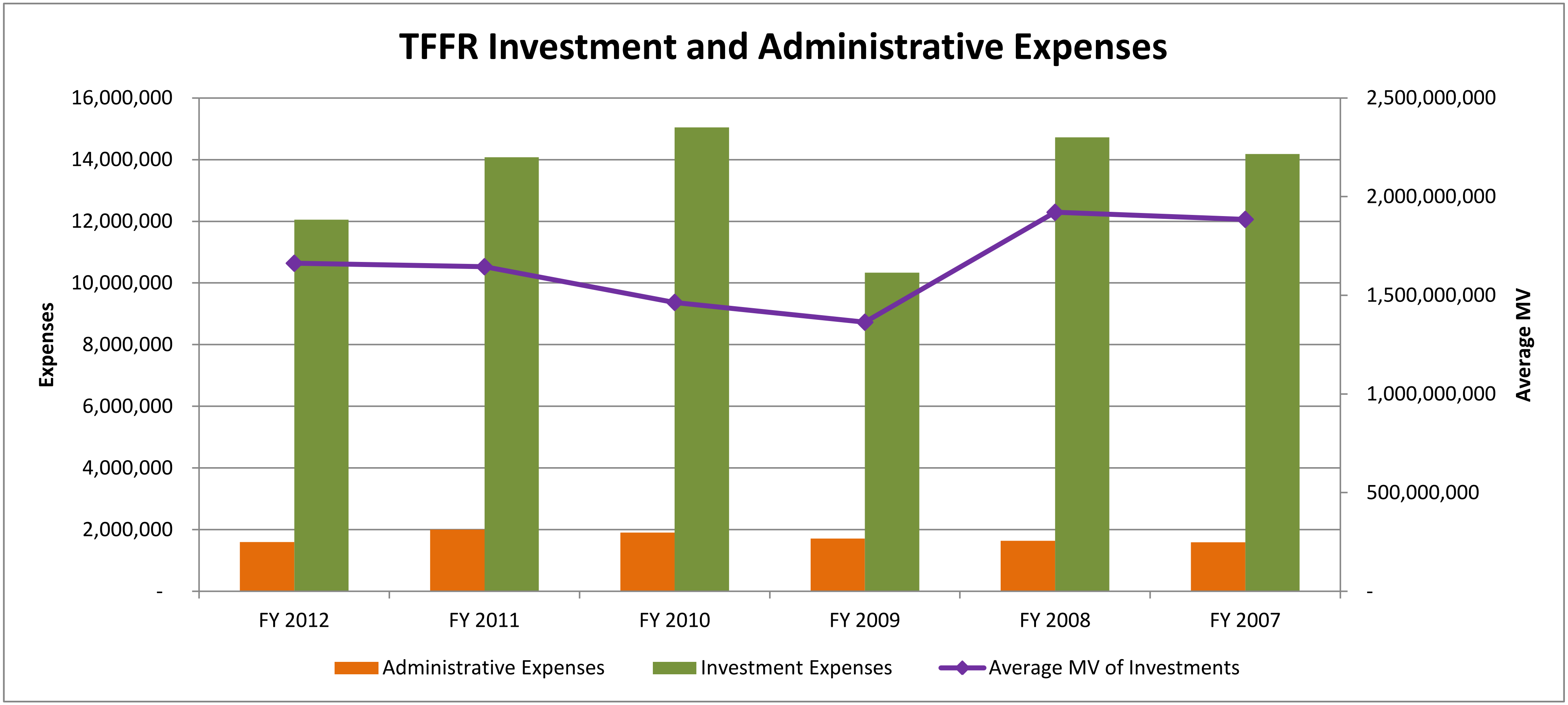
The accompanying notes are an integral part of these statements.

ND Teachers' Fund for Retirment
Schedule of Investment Expenses

	FY 2012			FY 2011		
	Average Market Value	Fees in $	Fees in %	Average Market Value	Fees in $	Fees in %
Investment managers' fees:						
Global equity managers	91,293,405	628,427	0.69%	-	-	0.00%
Domestic large cap equity managers	368,332,482	1,162,581	0.32%	462,300,915	2,137,914	0.46%
Domestic small cap equity managers	117,011,562	674,689	0.58%	175,616,733	1,224,383	0.70%
Developed international equity managers	243,490,701	1,027,046	0.42%	293,724,755	1,354,642	0.46%
Emerging markets equity managers	61,537,609	428,517	0.70%	93,108,196	1,058,054	1.14%
Investment grade domestic fixed income managers	199,221,601	712,767	0.36%	187,271,093	1,511,673	0.81%
Below investment grade fixed income managers	80,052,955	990,581	1.24%	115,815,131	2,783,656	2.40%
Developed international fixed income managers	81,420,595	293,376	0.36%	81,473,976	293,805	0.36%
Real estate managers	167,242,121	1,628,104	0.97%	158,084,184	1,952,869	1.24%
Timber managers	89,196,442	451,879	0.51%	-	-	0.00%
Infrastructure managers	55,512,867	886,429	1.60%	-	-	0.00%
Private equity managers	92,563,766	2,798,325	3.02%	62,825,947	1,261,507	2.01%
Cash & equivalents managers	15,437,756	23,326	0.15%	14,569,455	24,577	0.17%
Total investment managers' fees	**1,662,313,863**	**11,706,050**	**0.70%**	**1,644,790,386**	**13,603,080**	**0.83%**
Custodian fees		247,562	0.01%		321,522	0.02%
Investment consultant fees		96,205	0.01%		150,457	0.01%
Total investment expenses		**12,049,817**	**0.72%**		**14,075,059**	**0.86%**
Performance Fees Paid						
Declaration TALF		48,435			(16,589)	
AllianceBernstein TALF		-			18,847	
Northern Trust		129,538			-	
Clifton		316,931			363,816	
PIMCO DiSCO		(53,969)			488,447	
TIR TEREDO		109,836			-	
Goldman Sachs 2006 Fund		-			225,054	
Goldman Sachs Fund V		93,139			302,128	
PIMCO Distressed		288,211			-	
Declaration Distressed Mortgages		-			731,364	
Total Performance Fees Paid		**932,122**	**0.06%**		**2,113,067**	**0.13%**

ND RETIREMENT AND INVESTMENT OFFICE
2013-2015 BUDGET REQUEST SUMMARY

		2011-2013 Biennium Approved Budget			2013-2015 Biennium Budget Request			Change from 2011-13 Approved Budget						Increase over "Hold Even Budget" ($61,623 cost to continue salary increases)	
		TFFR	SIB	RIO Total	TFFR	SIB	RIO Total	TFFR		SIB		RIO Total		$	%
511000	SALARIES	1,257,339.00	1,137,863.00	2,395,202.00	1,327,240.80	1,169,623.20	2,496,864.00	69,901.80	5.6%	31,760.20	2.8%	101,662.00	4.2%	61,873.00	
513000	TEMP	4,000.00	4,000.00	8,000.00	4,000.00	4,000.00	8,000.00	-	0.0%	-	0.0%	-	0.0%		
516000	BENEFITS	493,039.00	306,873.00	799,912.00	514,233.45	326,898.70	841,132.15	21,194.45	4.3%	20,025.70	6.5%	41,220.15	5.2%	19,386.15	
	TOTAL SAL. & BEN.	**1,754,378.00**	**1,448,736.00**	**3,203,114.00**	**1,845,474.25**	**1,500,521.90**	**3,345,996.15**	**91,096.25**	**5.2%**	**51,785.90**	**3.6%**	**142,882.15**	**4.5%**	**81,259.15**	**2.5%**
601000	IT - DATA PROCESSING	173,280.00	19,444.00	192,724.00	150,865.00	20,275.00	171,140.00	(22,415.00)	-12.9%	831.00	4.3%	(21,584.00)	-11.2%		
602000	IT - COMMUNICATIONS	18,000.00	7,520.00	25,520.00	17,520.00	6,240.00	23,760.00	(480.00)	-2.7%	(1,280.00)	-17.0%	(1,760.00)	-6.9%		
521000	TRAVEL	80,840.00	46,399.00	127,239.00	78,161.00	47,950.00	126,111.00	(2,679.00)	-3.3%	1,551.00	3.3%	(1,128.00)	-0.9%		
531000	SUPPLIES - IT SOFTWARE	3,285.00	1,215.00	4,500.00	7,119.49	3,152.70	10,170.00	3,834.49	116.7%	1,937.70	159.5%	5,670.00	126.0%		
541000	POSTAGE	84,248.00	6,462.00	90,710.00	86,478.00	6,660.00	93,138.00	2,230.00	2.6%	198.00	3.1%	2,428.00	2.7%		
603000	IT CONTRACT SERVICES	195,361.00	3,904.00	199,265.00	191,313.05	2,691.95	194,005.00	(4,047.95)	-2.1%	(1,212.05)	-31.0%	(5,260.00)	-2.6%		
582000	LEASE/RENT - BLDG./LAND	112,389.00	43,247.00	155,636.00	110,613.84	49,022.16	159,636.00	(1,775.16)	-1.6%	5,775.16	13.4%	4,000.00	2.6%		
611000	PROFESSIONAL DEV.	33,195.00	12,825.00	46,020.00	31,955.00	11,705.00	43,660.00	(1,240.00)	-3.7%	(1,120.00)	-8.7%	(2,360.00)	-5.1%		
621000	OPERATING FEES & SERV.	19,799.00	8,506.00	28,305.00	21,528.92	10,059.08	31,588.00	1,729.92	8.7%	1,553.08	18.3%	3,283.00	11.6%		
591000	REPAIRS	730.00	270.00	1,000.00	690.00	310.00	1,000.00	(40.00)	-5.5%	40.00	14.8%	-	0.0%		
623000	PROFESSIONAL SERVICES	17,257.00	4,703.00	21,960.00	18,407.00	5,563.00	23,970.00	1,150.00	6.7%	860.00	18.3%	2,010.00	9.2%		
571000	INSURANCE	1,772.00	655.00	2,427.00	952.00	427.00	1,379.00	(820.00)	-46.3%	(228.00)	-34.8%	(1,048.00)	-43.2%		
536000	OFFICE SUPPLIES	7,051.00	2,409.00	9,460.00	6,040.95	2,714.05	8,755.00	(1,010.05)	-14.3%	305.05	12.7%	(705.00)	-7.5%		
542000	PRINTING	24,818.00	2,485.00	27,303.00	22,888.45	3,086.55	25,975.00	(1,929.55)	-7.8%	601.55	24.2%	(1,328.00)	-4.9%		
532000	PROF. SUPPLIES	2,044.00	956.00	3,000.00	1,690.00	2,310.00	4,000.00	(354.00)	-17.3%	1,354.00	141.6%	1,000.00	33.3%		
535000	MISC. SUPPLIES	3,775.00	1,396.00	5,171.00	3,318.50	1,491.50	4,810.00	(456.50)	-12.1%	95.50	6.8%	(361.00)	-7.0%		
551000	IT EQUIPMENT < $5000	1,168.00	2,932.00	4,100.00	24,360.30	7,709.70	32,070.00	23,192.30	1985.6%	4,777.70	163.0%	27,970.00	682.2%		
552000	OTHER EQUIPMENT < $5000	-	3,500.00	3,500.00	-	-	-	-	0.0%	(3,500.00)	-100.0%	(3,500.00)	-100.0%		
	TOTAL OPERATING BUDGET	**779,012.00**	**168,828.00**	**947,840.00**	**773,901.50**	**181,367.69**	**955,167.00**	**(5,110.50)**	**-0.7%**	**12,539.69**	**7.4%**	**7,327.00**	**0.8%**	**7,327.00**	**0.8%**
	TOTAL BEFORE CONTINGENCY	**2,533,390.00**	**1,617,564.00**	**4,150,954.00**	**2,619,375.75**	**1,681,889.59**	**4,301,163.15**	**85,985.75**	**3.4%**	**64,325.59**	**4.0%**	**150,209.15**	**3.6%**	**88,586.15**	**2.1%**
	CONTINGENCY	**41,000.00**	**41,000.00**	**82,000.00**	**41,000.00**	**41,000.00**	**82,000.00**	**-**	**-**	**-**	**-**	**-**	**-**		
	TOTAL BUDGET	**2,574,390.00**	**1,658,564.00**	**4,232,954.00**	**2,660,375.75**	**1,722,889.59**	**4,383,163.15**	**85,985.75**	**3.3%**	**64,325.59**	**3.9%**	**150,209.15**	**3.5%**	**88,586.15**	**2.1%**



TFFR Investment and Administrative Expenses
16,000,000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
-
Expenses
2,500,000,000
2,000,000,000
1,500,000,000
1,000,000,000
500,000,000
-
Average MV
FY 2012
FY 2011
FY 2010
FY 2009
FY 2008
FY 2007
Administrative Expenses
Investment Expenses
Average MV of Investments

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Tentative Agenda

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Tuesday, September 25, 2012
Roughrider Room, State Capitol
Bismarck, North Dakota

9:00 a.m. Call to order
Roll call
Consideration of the minutes of the June 7, 2012, meeting

STATE INVESTMENT BOARD

9:05 a.m. Presentation by Mr. Darren Schulz, Interim Chief Investment Officer, Retirement and Investment Office, concerning investment returns of the Teachers' Fund for Retirement (TFFR) and Public Employees Retirement System (PERS) retirement funds and the current investment climate

9:30 a.m. Technical comments and public input on public employees benefits bills

TEACHERS' FUND FOR RETIREMENT

Bill No. 99 Plan modifications to TFFR required to maintain compliance with federal statutes or rules, definition of normal retirement age and revising the definitions of actuarial equivalent and salary, incorporation of federal law changes, and modification of vesting of rights provisions under TFFR (TFFR)

Bill No. 43 Expiration of the increase in TFFR member and employer contributions (Representative Louser)

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Bill No. 100 Plan modifications to the PERS defined contribution retirement plan required to maintain compliance with the Internal Revenue Code, incorporation of Internal Revenue Code compliance under the Highway Patrolmen's retirement plan and PERS, updating appropriate committee designations for the savings clauses of the Highway Patrolmen's retirement plan and PERS, the PERS Board's authority to fund administrative expenses, normal retirement dates for a peace officer or correctional officer, normal retirement dates for a National Guard security officer or firefighter, normal retirement dates for a peace officer employed by the Bureau of Criminal Investigation, removal of the level Social Security retirement benefit option under PERS, defrayal of expenses associated with the pretax benefits program, and distribution of a deceased participant's accumulated account balance under the defined contribution retirement plan (PERS)

Bill No. 103 Increased employer and employee contributions under the Highway Patrolmen's retirement plan and PERS (PERS)

Bill No. 101 Definition of an eligible employee, payment of the cost of uniform group insurance premiums for temporary employees, and the health savings account option offered to political subdivisions as part of the high-deductible health plan alternative under the uniform group insurance program (PERS)

Bill No. 102 Benefit coverage and health benefits credit for retired employees not eligible for Medicare and retired employees eligible for Medicare under the uniform group insurance program (PERS)

RECRUITMENT AND RETENTION BONUS REPORT

Presentation by representatives of Human Resource Management Services, Office of Management and Budget, of a report on the implementation, progress, and bonuses provided by state agency programs to provide bonuses to recruit or retain employees in hard-to-fill positions

COMPENSATION PHILOSOPHY STATEMENT AND SYSTEM INITIATIVES REPORT

Presentation by representatives of Human Resource Management Services, Office of Management and Budget, concerning the status of implementation and administration of the compensation philosophy statement and compensation system initiatives included in House Bill No. 1031 (2011 Senate Bill No. 2015, Section 10)

Adjourn

NOTE: The committee may take a 15- to 20-minute break during the meeting.

Committee Members

Senators Dick Dever (Chairman), Ray Holmberg, Ralph L. Kilzer, Karen K. Krebsbach, Carolyn C. Nelson, Ronald Sorvaag

Representatives Randy Boehning, Roger Brabandt, Bette Grande, Ron Guggisberg, Scott Louser, Ralph Metcalf, John D. Wall

Staff Contact: Jeffrey N. Nelson, Counsel

SEGAL

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September 19, 2012

Via E-mail

Senator Dick Dever, Chairman
Employee Benefits Program Committee
c/o Jeffrey N. Nelson
North Dakota Legislative Council
State Capitol
600 East Boulevard
Bismarck, ND 58505-0360

Re: **Technical Comments on Draft Bill 99 (Administrative Changes)**

Dear Senator Dever:

As requested, we reviewed draft Bill 99 (Bill No. 13.0099.02000), which proposes a number of technical and administrative changes to the North Dakota Teachers' Fund for Retirement (TFFR). The following presents our analysis of such proposed changes found in draft Bill 99.

Summary: The proposed legislation would make the following notable changes:

- Clarifies that the definition of "actuarial equivalent" is based on actuarial assumptions and methods adopted by the retirement board (Section 1).

- Adds a definition of "normal retirement age" to the plan by reference to statutory sections describing eligibility rules for unreduced retirement benefits (Section 1), and clarifies that members have a vested right to retirement benefits upon attaining normal retirement age (Section 4).

- Updates federal compliance provisions of the plan regarding Internal Revenue Code sections 401(a)(17), 401(a)(9) and 415(b) and (d) in various sections of the North Dakota Century Code (NDCC), chapter 15-39.1 (Sections 1, 2 and 3).

- Clarifies that tier one members become vested after earning three years of service and tier two members become vested after earning five years of service, without regard to whether assessments were paid to the TFFR (Section 4).

- Adds a savings clause to the plan provisions whereby the retirement board, with approval of the employee benefits programs committee, may adopt appropriate terminology as necessary for the plan to comply with applicable federal statutes and rules (Section 5).

Actuarial Cost Analysis: This bill would have an immaterial actuarial cost impact on the TFFR.

Technical Comments: Our comments on the bill are as follows:

General Comments

The bill generally clarifies existing statutory provisions to more accurately reflect actual operations of the TFFR or to make various provisions of the plan more consistent with each other. The provisions of this bill do not appear to directly or significantly impact the benefits payable from the TFFR.

Compliance Issues

The bill amends various sections of the North Dakota Century Code, chapter 15-39.1 to change references under Internal Revenue Code section 401(a)(9), section 401(a)(17) (as well as Code references related to the definition of compensation under section 401(a)(17)), and section 415(b) and (d) from the Code language in effect on August 1, 2011 to the language in effect on August 1, 2013. No material changes have been made to these Internal Revenue Code sections since August 1, 2011, other than the statutory indexing of dollar amounts set forth in Code sections 401(a)(17) and 415(b).

Pursuant to our recommendation to TFFR , it may be advisable to amend specific language in NDCC §15-39.1-10.6, relating to cost-of-living increases made by Internal Revenue Code section 415(d) to the maximum dollar limit under Code section 415(b), so as to clarify that such increases in the dollar limit shall apply to former employees. For example, the third sentence of NDCC §15-39.1-10.6 could be amended to read as follows:

> *"If a member's benefit is limited by these provisions at the time of retirement **or termination of employment,** 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 **employment terminated and/or** 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."*

This bill clarifies that members vest in their retirement benefits under the plan upon attaining normal retirement age. It is our understanding that the IRS requested that TFFR amend their plan rules to provide for vesting at normal retirement age in order to obtain a favorable determination letter on the plan's qualified status.

Section 4 of the bill clarifies that tier one and tier two members will become vested without regard to whether assessments were paid to TFFR for purposes of complying with plan qualification requirements under Internal Revenue Code section 401(a).

Administrative Issues

The savings clause language in Section 5 of the bill enables the retirement board to respond to changes in applicable federal statutes and rules quickly and efficiently in a manner that helps the plan maintain compliance with applicable federal requirements for tax-qualified pension plans.

The information contained in this letter is provided within our role as the plan's actuary and benefits consultant and is not intended to provide tax or legal advice. We recommend that you address all issues described herein with your legal counsel.

Please contact us if you have any questions or comments.

Sincerely yours,

Kim Nicholl

Melanie Walker

Kim Nicholl, FSA, EA, FCA
Senior Vice President and Consulting Actuary

Melanie Walker, JD
Vice President

kn/mw/ns

cc: Ms. Fay Kopp, Interim Executive Director, ND Retirement and Investment Office
Mr. Matthew Strom

5281260V2/13475.003

13.0099.02000

Sixty-third
Legislative Assembly
of North Dakota

BILL NO.

Introduced by

(At the request of the Teachers' Fund for Retirement)

A BILL for an Act to create and enact a new section to chapter 15-39.1 of the North Dakota Century Code, relating to plan modifications to the teachers' fund for retirement required to maintain compliance with federal statutes or rules; and to amend and reenact section 15-39.1-04, subsection 4 of section 15-39.1-10, and sections 15-39.1-10.6 and 15-39.1-11 of the North Dakota Century Code, relating to the definition of normal retirement age and revising the definitions of actuarial equivalent and salary, incorporation of federal law changes, and modification of vesting of rights provisions under the teachers' fund for retirement.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 15-39.1-04 of the North Dakota Century Code is amended and reenacted as follows:

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~~calculated to be of equal actuarial value to the benefit otherwise payable when computed on the basis of actuarial assumptions and methods adopted by the board.
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. <u>"Normal retirement age" means the age at which a member becomes eligible for monthly lifetime normal unreduced retirement benefits as provided in subsection 1 of section 15-39.1-10.</u>

<u>8.</u> "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.~~<u>9.</u> "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.~~<u>10.</u> "Salary" means a member's earnings in eligible employment under this chapter for teaching, supervisory, administrative, and extracurricular services during a ~~school~~<u>plan</u> 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~~<u>2013</u>. "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~~<u>2013</u>, 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~~<u>2013</u>. 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.~~11. "State institution" includes North Dakota vision services - school for the blind, the school for the deaf, and the North Dakota youth correctional center.

~~11.~~12. "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.~~13. "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.~~14. "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.~~15. "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.~~16. "Tier two member" means a teacher who is not a tier one member.

SECTION 2. AMENDMENT. Subsection 4 of section 15-39.1-10 of the North Dakota Century Code is amended and reenacted as follows:

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~~2013, and the regulations issued under that section, as applicable to governmental plans.

SECTION 3. AMENDMENT. Section 15-39.1-10.6 of the North Dakota Century Code is amended and reenacted as follows:

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~~2013, 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~~2013. 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.

SECTION 4. AMENDMENT. Section 15-39.1-11 of the North Dakota Century Code is amended and reenacted as follows:

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. When a tier one or tier two member has attained normal retirement age that member has a vested right to a retirement annuity under this chapter.

SECTION 5. A new section to chapter 15-39.1 of the North Dakota Century Code is created and enacted as follows:

Savings clause - Plan modifications. If the board determines that any section of this chapter does not comply with applicable federal statutes or rules, the board shall adopt appropriate terminology with respect to that section as will comply with those federal statutes or rules, subject to the approval of the employee benefits programs committee. Any plan modifications made by the board pursuant to this section are effective until the effective date of any measure enacted by the legislative assembly providing the necessary amendments to this chapter to ensure compliance with the federal statutes or rules.

THE SEGAL COMPANY
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September 19, 2012

Via E-mail

Senator Dick Dever, Chairman
Employee Benefits Programs Committee
c/o Jeff Nelson
ND Legislative Council
State Capitol
600 East Boulevard
Bismarck, ND 58505-0360

Re: Technical Comments on Draft Bill 43

Dear Senator Dever:

The following presents our analysis of the proposed changes found in Draft Bill 43 (Bill Draft 13.0043.02000) that would modify the expiration of the increase in required contributions for both employers and members of the Teachers' Fund for Retirement (TFFR).

Summary

The contribution rates, percentage per annum of the teacher's salary, required for employers and TFFR members are shown below:

Period	Employer	Member	Total
Current through June 30, 2012	8.75%	7.75%	16.50%
July 1, 2012 through June 30, 2014	10.75%	9.75%	20.50%
Beginning July 1, 2014	12.75%	11.75%	24.50%

As under present law, the higher contributions are not intended to be permanent. Both employer and member rates would revert to 7.75% on the July 1st following the first valuation showing that the funded ratio, as measured by the ratio of the actuarial value of assets to the actuarial accrued liability, equals or exceeds 90%. The proposed legislation would increase this trigger funded ratio for contribution reversion from 90% to 100%.

Actuarial Analysis

Based on the actuarial analysis, this bill would not have an actuarial impact on the TFFR's liability immediately. It would increase the funded status of the plan starting in 2033 by deferring the contribution reversion to 7.75% from 2032 until 2038. Exhibits I, II and III show 30-year projections of funded status, employer contribution rate, and member contribution rate.

Administrative Costs

This bill would have minimal impact on administrative costs of the TFFR.

General Comments

The projections were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2011, and asset returns through July 1, 2011, and use assumptions adopted for the July 1, 2011 valuation.

Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies describes herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

Please do not hesitate to contact us with any questions or comments.

Sincerely,

Kim Nicholl

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

Matthew A. Strom

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

kn/ms/ns

cc: Ms. Fay Kopp, Interim Executive Director, ND Retirement and Investment Office

Attachments

Exhibit I

Projection of Funded Status

DRAFT

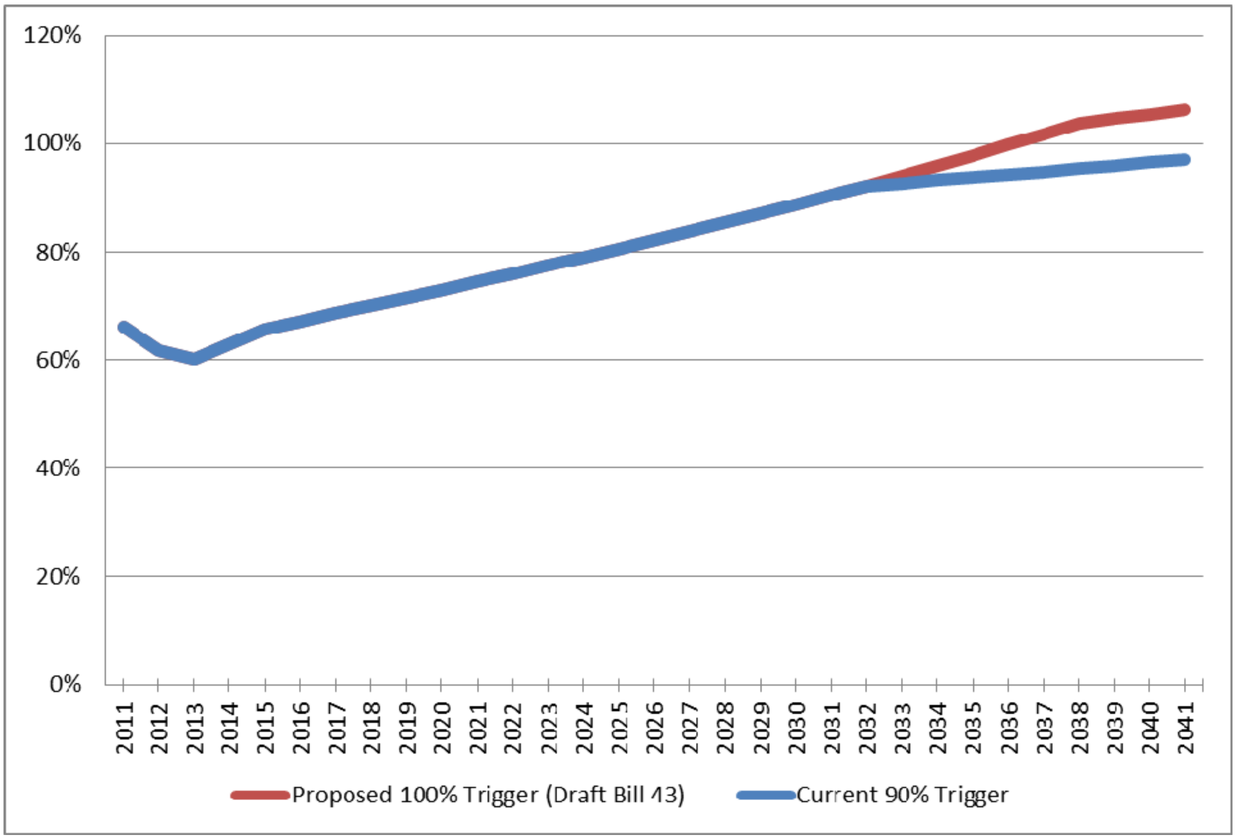


Exhibit II

Projection of Employer Contribution Rate

DRAFT

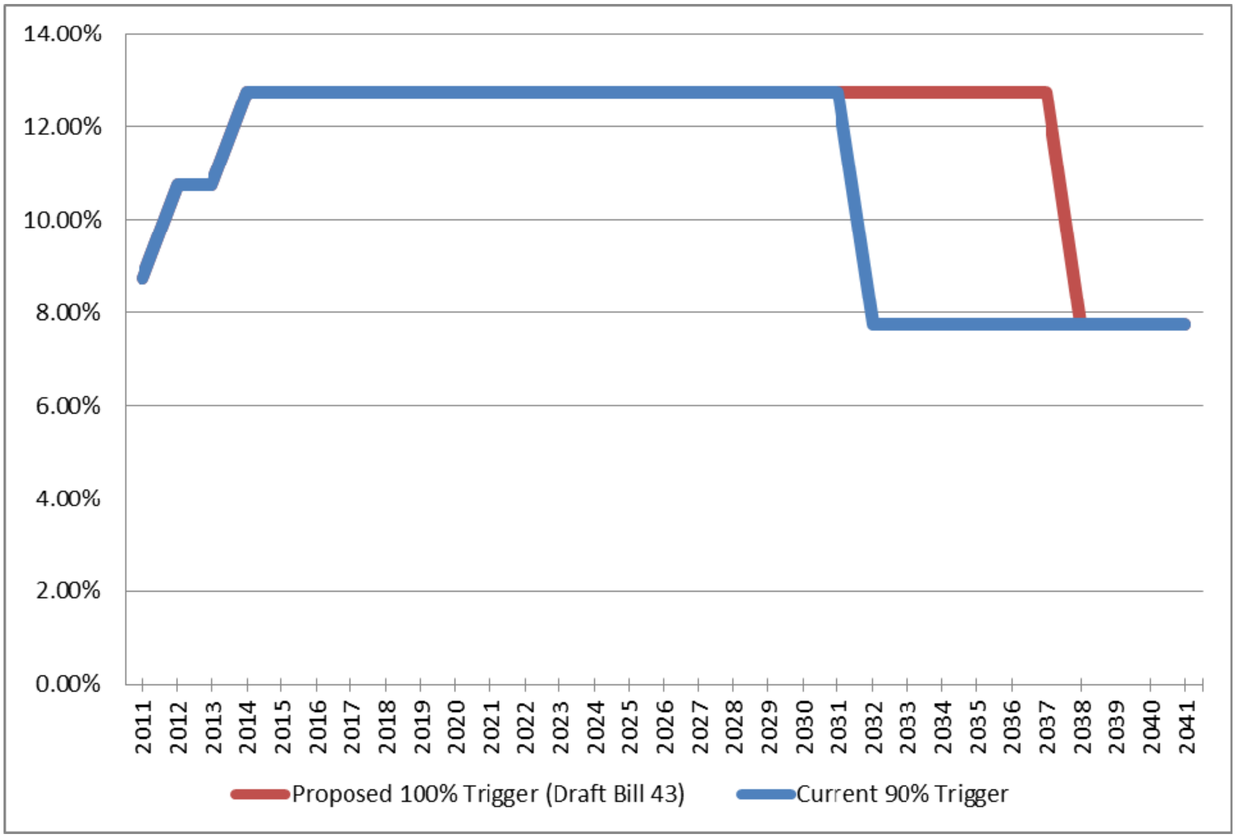
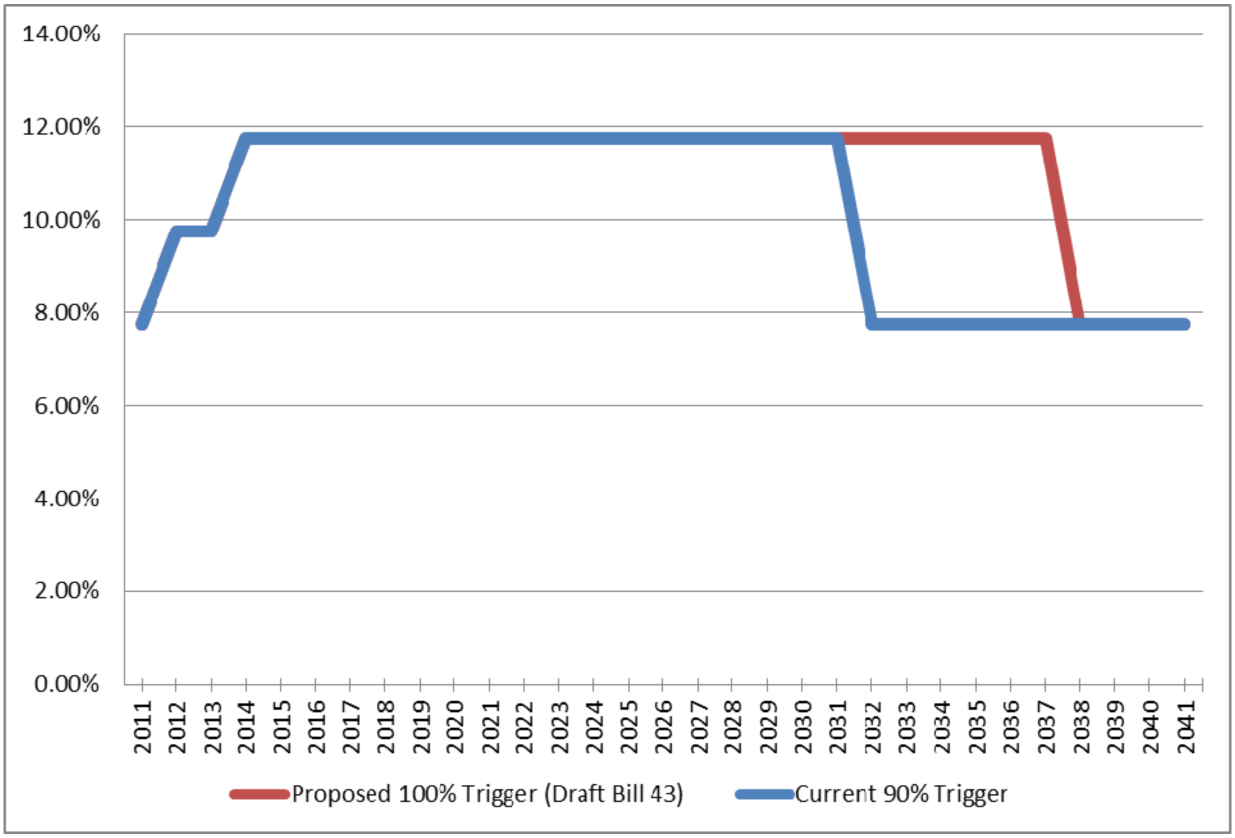


Exhibit III

Projection of Employee Contribution Rate

DRAFT



Sixty-third
Legislative Assembly
of North Dakota

BILL NO.

Introduced by

Representative Louser

A BILL for an Act to amend and reenact subsection 1 of section 15-39.1-09 of the North Dakota Century Code, relating to expiration of the increase in teachers' fund for retirement member and employer contributions.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 1 of section 15-39.1-09 of the North Dakota Century Code is amended and reenacted as follows:

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~~<u>one hundred</u> percent. The disbursing official of the

governmental body shall certify the governmental body payments and remit the payments monthly to the fund.

NASRA Issue Brief

State Hybrid Retirement Plans Part II: Shared-Risk Arrangements

August 2012

Hybrid plans have been in place for employees of state and local government for decades. This plan design currently is receiving increased attention as states find that closing a traditional defined benefit pension plan to new employees could increase—rather than reduce—costs,[1] and that providing only a 401(k)-type plan does not meet retirement security, human resource, or fiscal objectives. Although most states made the decision to retain their defined benefit plan by modifying required employer and employee contributions, restructuring benefits, or both,[2] some have also looked to so-called "hybrid" plans that combine elements of traditional pensions and individual account plans.

The NASRA Issue Brief, *State Hybrid Retirement Plans Part I* examines the use of two types of hybrid plan in the public sector – cash balance plans and combined defined benefit/defined contribution plans. This Part II explains additional state plan designs also considered hybrid in that they marry key characteristics of defined benefit and defined contribution plans to further distribute risk between public employers and their employees.

Risk

Hybrid retirement systems combine different elements of defined benefit and defined contribution plans to create a design that meets unique stakeholder objectives while preserving the core elements of public pension plan design: mandatory participation, shared financing, pooled investments, benefit adequacy, and lifetime benefit payouts. Unlike the private sector, nearly all public employees are required to make mandatory pension contributions and share in the plan financing to some degree. A further distinguishing characteristic of many state and local government retirement plan designs is the sharing of risk between employees and employers.

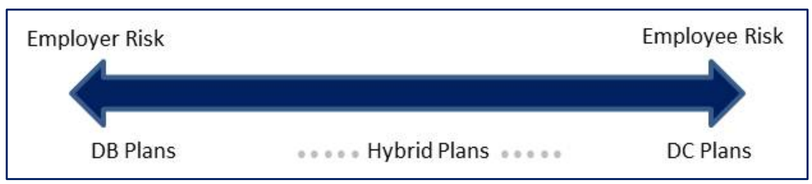


Fig. 1: Continuum of Risk in Public Retirement Plan Designs

In a retirement plan, risk manifests itself in three major forms: investment risk, longevity risk, and inflation risk.

Investment Risk

Investment risk refers to the proportionate share of the burden for the performance of system assets which are invested over time. In a typical defined benefit (DB) plan, the employer assumes all or most of the investment risk. This is because employees are promised a quantifiable benefit regardless of the performance of investments. In a typical defined contribution (DC) plan this is reversed, since no specific benefit amount is promised; rather, each individual's final account balance depends on the performance of the investments they select (as well as the amount of contributions). In this way, employees in DC plans are exposed to general market risk (the risk that assets will perform consistent with overall market performance) as well as sophistication risk (the risk associated with the individual's financial or investment knowledge and experience).

Longevity Risk

Longevity risk refers to the risk of outliving ones' retirement benefits. Most public sector DB plans require participants to receive all or most of their benefit as an annuity paid out over their retired lifetime. In this case, longevity risk is pooled across plan participants, but the employer bears all of the risk that plan assets are sufficient to cover all such distributions. In a pure DC system, or any plan that provides a lump-sum amount to employees, longevity risk falls on employees individually, who each bear all of the risk of whether the amount will be exhausted over their retired life.

Inflation Risk

Inflation risk is the potential loss assumed by the devaluation of money over time. Most sponsors of public defined benefit plans provide retirees with an annual cost-of-living adjustment (COLA) to offset the effects of inflation. Depending on its design, a COLA places a portion of the risk of inflation on the employer. By contrast, defined contribution plans generally do not offer postretirement adjustments, so the employee assumes all inflationary risk. Eliminating or reducing inflation risk requires an employee to have enough savings to not only live comfortably in retirement, but also to offset any price increases in years when regular income is not coming in.?

Balancing Risk

Public pensions use different methods to balance these various risks borne by employers and/or employees. Cash balance plans and combination DB/DC plans are two ways in which this is done (see NASRA Issue Brief: State Hybrid Retirement Plans Part I). However, there are other arrangements that do so as well.

Shared-risk plans, for example, function within a defined benefit plan, but employee contributions, benefits, or both can fluctuate depending upon the plan's financial condition. These plans essentially share all three types of risk in that changes to investment returns, longevity and inflation affect a plan's fiscal status. Examples of shared-risk features in public plans appear in Appendix A.

Another method used by pension funds to balance risk is to automatically enroll employees in, or contribute to, a supplemental retirement account in addition to requiring mandatory participation in the primary DB plan. Similar in many respects to combination DB-DC plans, designs such as these use a combination of DB and DC elements to finance an employee's overall retirement benefit, with different levels and types of risk borne by employers and employees, without relying entirely on one design or the other.

An increasing number of public plans are making adjustments to the distribution of inflation risk by modifying the conditions that govern the provision of cost-of-living adjustments. Some systems, for example, tie their COLA payments to the overall performance of the system, making postretirement adjustments available only when the system reaches a desired level of funding or assets reach a targeted rate of return in a given year. (For information on each system, see NASRA Issue Brief: Cost-of-Living Adjustments.)

Conclusion

Any retirement plan in which risk is shared by employees and employers can be considered a hybrid plan. Ultimately, the plan design will dictate the degree to which risk is borne by employers and employees. The tables below illustrate some of the many ways states are using various combinations of retirement plan design and risk-sharing to achieve their retirement plan objectives. This diversity in plan design reflects the fact that a one-size-fits-all solution does not meet different states' human resources needs and fiscal conditions and frameworks. The critical factor in evaluating a retirement plan is the extent to which the plan meets the needs of all stakeholders. Core elements of public pension plan design known to accomplish these objectives include mandatory participation, shared financing, pooled investments, benefit adequacy, and lifetime benefit payouts. These features are a proven means of delivering income security in retirement, retaining qualified workers who perform essential public services, and providing an important source of economic stability to every city, town, and state across the country.[2]

See Also

National Association of State Retirement Administrators, Issue Brief: State Hybrid Retirement Plans Part I, November 2011, http://www.nasra.org/resources/HybridBrief.pdf

National Association of State Retirement Administrators, Issue Brief: Cost of Living Adjustments, June 2012, http://www.nasra.org/resources/COLA%20IB%20060512.pdf

National Conference of State Legislators, State Defined Contribution and Hybrid Pension Plans, http://www.nasra.org/resources/NCSL_DC_Hybrid.pdf

Center for State & Local Government Excellence, *What are Hybrid Retirement Plans?*
http://slge.org/publications/what-are-hybrid-retirement-plans

Government Finance Officers Association, *Essential Design Elements of Hybrid Retirement Plans*
http://www.gfoa.org/downloads/HybridPlansFINAL.pdf

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National Association of State Retirement Administrators
www.nasra.org

[1] Wikipension, "Costs of Switching from a DB to a DC Plan," http://www.wikipension.com/index.php?title=Studies_and_reports#State_Studies
[2] NASRA,"Selected Approved Changes to State Public Pensions to Restore or Preserve Plan Sustainability," http://www.nasra.org/resolutions.htm#200701

Appendix A: Examples of Shared-Risk and Auto-Enrollment Supplemental Retirement Plans

Plan	Feature
Arizona State Retirement System	Employee and employer contribution rates are matched and fluctuate based on the plan's actuarial condition
Iowa Public Employees Retirement System	Employee and employer contribution rates are a set percentage of pay, which fluctuates based on the plan's actuarial condition
Minnesota Teachers Retirement Association	Retired teachers who return to work receive payments to an individual retirement account in lieu of confiscating pension benefits when teachers earn a salary in excess of the limit on post-retirement employment (known as Earnings Limitation Savings Accounts)
Missouri State Employees Retirement System	Participants receive an employer contribution to their 457-plan when they contribute (subject to appropriation from the state)
Nevada Public Employees Retirement System	Employees contribute one-half of the required contribution through a non-refundable salary reduction. Contribution rates vary based on the plan's actuarial condition.
North Dakota Public Employees Retirement System	Participants may direct employer contributions to an interest-bearing account they may take with them upon termination, in lieu of an annuitized retirement benefit
South Dakota Retirement System	Participants may participate in a supplemental retirement savings plan with a range of risk-based investment options that can be taken at retirement as a lump sum, annuitized, or rolled into their pension benefit, among other options
Texas Employees Retirement System and Virginia Retirement System	State employees are automatically enrolled in a supplemental DC plan, with an opt-out provision
Utah Retirement System	Employees hired since July 2011 may elect to participate in a DB or a DC plan; those electing the DB plan are liable for plan costs above 10 percent of pay (the current cost is about 7.6 percent)
Wisconsin Retirement System	Retiring employees receive the higher of two benefit calculations: a traditional DB formula calculation or an annuitized value of their account balance. Dividend adjustments are given to retirees when investment performance produces a surplus of reserve funds. Accumulated annuity dividends may be reduced in times of poor investment performance, but the benefit may never be reduced below the initial guaranteed annuity

**Multiple systems base annual cost-of-living adjustments partly or wholly on investment performance*

***Multiple systems offer access to a supplemental defined contribution plan in addition to participants' regular pension benefit*

****This is a representative list and is not intended to be exhaustive*

Appendix B: Employer and Employee Risks in Common Public Hybrid Retirement Plan Designs*

	Cash Balance	Combination Defined Benefit/Defined Contribution	Auto-enrollment Supplemental Plans	Shared Risk Arrangements
Investment risk	Assets are pooled and invested by professionals and specified annual returns are provided on notional participant accounts. Employer bears risk of meeting the minimum guaranteed return rate. Employees do not bear sophistication risk of managing investments but may share market risk to the extent the return rate fluctuates with investment performance.	For the DB component, risk is on employer to attain investment return assumption. For the DC component, market risk is on employee. For most plans, employees also bear sophistication risk, but some plans require or offer an option to invest the DC component in a pooled and professionally-managed fund to minimize this.	For the DB component, risk is on employer to attain investment return assumption. For the DC component, risk is on employee.	Assets are pooled and professionally managed, but market risk is shared between employees and employers in that contribution rates for each can be altered depending the financial status of the plan.
Longevity Risk	Most plans require notional accounts to be converted into a lifetime benefit that spreads risk across plan participants. In these, employer bears risk that accumulated assets will cover required distributions. In those plans or options that instead provide a lump-sum benefit, individual risk is borne by employee.	For DB component: employer. For DC component: employee. Some plans require or allow employees to convert DC account into a lifetime benefit.	For DB component: employer. For DC component: employee. Some plans allow employees to purchase annuity in the DB plan with supplemental DC plan assets.	Risk is shared between employees and employers to the extent that contribution rates for each can be altered depending on the financial status of the plan
Inflation Risk	The extent to which a COLA is provided, the risk is on the employer; the extent to which the COLA does not keep up with inflation, the risk is on the employee.	To the extent the DB component includes a COLA, the risk is placed on the employer. In the DC component, the risk is borne by the employee (except for the extent to which they are required allowed to convert DC account into an annuity with a COLA).	To the extent the DB component includes a COLA, the risk is placed on the employer. In the DC component, the risk is borne by the employee. (except for the extent to which they are required allowed to convert DC account into an annuity with a COLA)	The extent to which a COLA is provided, the risk is on the employer; the extent to which the COLA does not keep up with inflation, the risk is on the employee. Since contribution rates vary for each depending on the financial status of the plan, both bear this risk to some degree.

** Generally financed through employer and employee contributions*

NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

State Cash Balance, Defined Contribution and Hybrid Retirement Plans

Ronald Snell
July 2012

This report describes state retirement plans that depart from the traditional public sector model of defined benefit (DB) plans. The overwhelming majority of statewide retirement plans for public employees and for teachers are DB plans. These provide a guaranteed life-time retirement benefit based on an employee's years of service and final salary. Although most state plans require employee contributions, the amount of benefit is not based on contributions. The plans may include post-retirement benefit adjustments, disability and life insurance, and retiree health insurance, although not all do so.

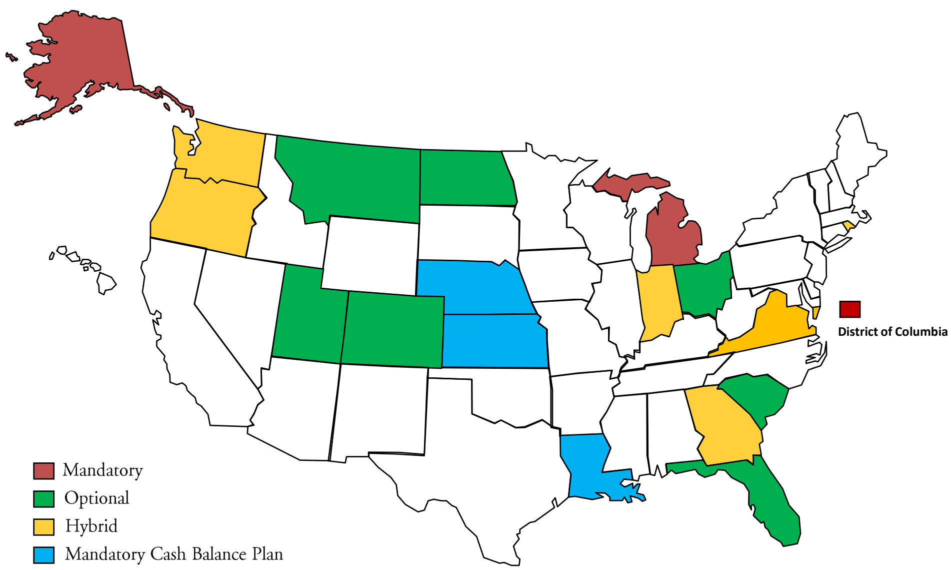
Other models have existed for a long time and have attracted increasing attention in recent years. As long ago as 1967, Nebraska established a defined contribution (DC) plan for state and county employees, similar to 401(k) plans in the private sector. Indiana's public retirement plans have long been what is sometimes called a hybrid plan, in which each member has both a DC and a DB retirement plan.[1] A third model is a cash-balance plan, in which members have individual accounts that carry a guaranteed rate of return and do not require the member to manage investments. Nebraska replaced its DC plan with a cash balance plan in 2002 and Kansas and Louisiana adopted new cash balance plans in 2012.

This report lists state governments plans designed as primary coverage for a state employees or state teachers or both. Primary coverage indicates a plan that eligible employees are required to join, or that is one of two or three alternative plans that employees choose among. Details on the different structures of cash balance, defined contribution and hybrid plans are included below in the discussion of individual state plans. The maps on the following pages indicate where such plans exist.

This report does not include optional deferred compensation plans, like Section 457 plans, which all states offer employees and teachers as a means of augmenting primary pension coverage. Many states have offered defined contribution plans to higher education faculty; this report is not intended to include all such plans.

See National Association of State Retirement Administrators, *NASRA Issue Brief: State Hybrid Retirement Plans* (November, 2011) at
http://www.nasra.org/resources/HybridBrief.pdf

Figure 1. Cash Balance, Defined Contribution and Hybrid Plans for
General State Employees



Notes to figure 1:

In most states in the chart, the mandatory or optional plan indicated applies to employees who entered a retirement system after some specified date. Employees hired previously may be under other retirement plan designs. See the state plan descriptions in this document for details.

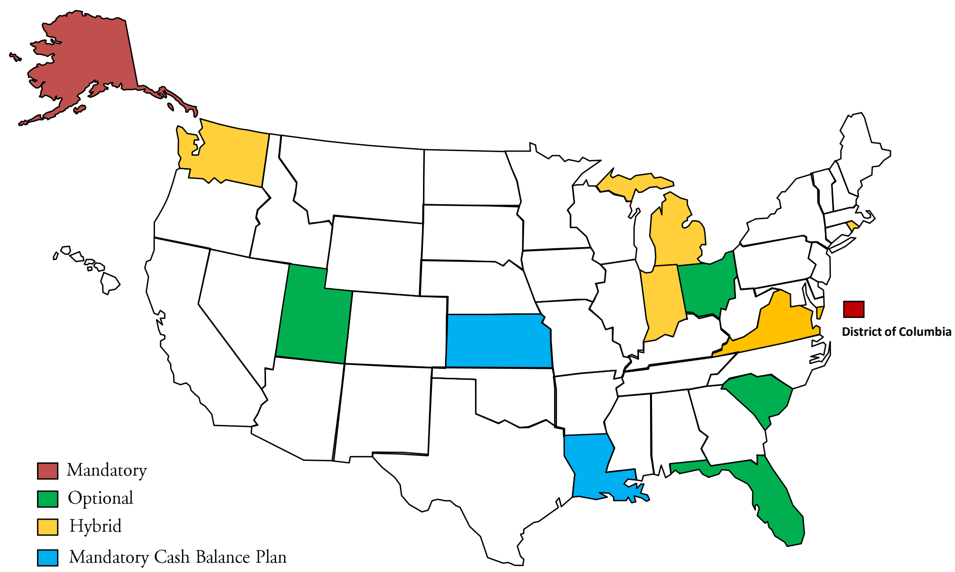
Indiana added an optional DC plan for state employees in 2011.

Kansas in 2012 enacted legislation to create a cash balance plan mandatory for most members of the Kansas Public Employees' Retirement System whose plan membership begins on or after January 1, 2015.

Louisiana in 2012 enacted legislation to create a cash balance plan mandatory for most state employees and post-secondary members of the Teachers' Retirement System whose plan membership begins on or after July 1. 2013. Membership is optional for other members of the Teachers' Retirement System.

Virginia in 2012 enacted legislation to create a hybrid plan for state and local government employees and teachers to include all new employees entering the Virginia Retirement System, other than hazardous duty and law enforcement members, as of January 1, 2014.

Figure 2. Cash Balance, Defined Contribution and Hybrid Plans:
Statewide Teachers' Plans, April, 2012



Notes to Figure 2:

In most states in the chart, the mandatory or optional defined contribution plans and hybrid plans cover employees who entered a retirement system after some specified date. Employees hired previously may be under other plan designs. See the state plan descriptions in this document for details.

Kansas in 2012 enacted legislation to create a cash balance plan mandatory for most members of the Kansas Public Employees' Retirement System whose plan membership begins on or after January 1, 2015. This plan includes teachers.

Louisiana in 2012 enacted legislation to create a cash balance plan that is mandatory for post-secondary members of the Teachers' Retirement System whose plan membership begins on or after July 1. 2013. Membership is optional for other members of the Teachers' Retirement System.

Virginia legislation of 2012 created a hybrid plan for teachers and state and local employees, other than hazardous and law enforcement members, who enter the Virginia Retirement System on or after January 1, 2014.

West Virginia: A West Virginia defined contribution plan for teachers was open for enrollment of members from 1999 to 2005, and has been closed to new members since that time. It is not shown on the map.

Part 1. Cash Balance Plans as Primary Plans

A cash balance plan is a form of hybrid plan that combines elements of DB and DC plans in one plan. In a cash balance plan:

- Each member has an individual account.
- Employees and employers both contribute to the account.
- The member cannot choose how the money is invested.
- Members' accounts are managed in one commingled fund, and members are guaranteed a specified return on their accounts.
- If investment return makes it possible, member accounts can receive additional returns.
- In public plans, upon retirement, the member receives an annuity based on the account balance and may have additional benefit options.

Kansas. In 2012, Kansas enacted legislation to replace its defined benefit plan for most state and local government employees, including education employees, with a cash balance on January 1, 2015. Members will contribute 6 percent of salary to their account.

Employers will contribute amounts ranging from 3 percent to 6 percent depending on how long the member has been employed. The Public Employee Retirement System will direct investments. Members are guaranteed an annual return of 5.25 percent on their accounts. Employees who leave before retirement may withdraw their contributions and the interest on them, but not the employer contributions. At retirement, members' accumulated balances will be converted to annuities, with additional options available.

See Chapter 171, Laws of 2012 (House Bill 2333)

Louisiana. Louisiana enacted legislation in 2012 to create a cash balance plan for most state employees and for post-secondary members of the Teachers' Retirement System of Louisiana, mandatory for those whose membership begins on or after July 1, 2013. It is available as a optional plan to specified other teachers and public employees.

Employee contributions will be 8 percent of salary. Each member account will receive an employer credit of 4 percent of salary annually as well as interest on the account, which will be pinned to the actuarial rate of return on investments of the Louisiana State Employees' Retirement System, but which will not fall below zero. Members of five years' standing who leave the system may withdraw their total balance, including the interest earnings, or leave it with the system. When members reach retirement age, they may convert the account to an annuity or choose among a variety of cash benefits.

See Chapter 483, Laws of 2012 (House Bill 61)

Nebraska. The primary Public Employee Retirement System plan was a defined contribution plan from 1967 to 2002. It was closed to new employees on January 1, 2003, and replaced with a cash balance plan. Members of the DC plan were allowed to transfer to the cash balance plan at the time, and enrollment has periodically been reopened to DC plan members since that time.

Employees contribute 4.8% of salary to the plan. Employer contributions are set at 156 percent of the employee contribution (7.488 percent) of salary. Members are guaranteed an annual return of at least 5% a year. The account can receive a higher return, depending on the federal mid-term rate and on investment earnings. At retirement, the employee may buy an annuity, or withdraw the balance in a lump sum or in installments.

See *Nebraska Statutes* Sections 84-1301 through 84-1333 and Buck Consultants. *Benefit Review Study of the Nebraska Retirement Systems*. August 2000 http://nlc1.nlc.state.ne.us/docs/pilot/pubs/nebraska_benefit_review_study.pdf

Part 2a. Defined Contribution Plans as Primary Plans

These plans are the government's primary, mandatory retirement plan for the designated class of employees.

Alaska. In 2005, the Legislature voted to close its defined benefit plans for public employees and teachers to new enrollment and to replace the defined benefit plans with defined contribution plans, effective July 1, 2006. Nonvested employees of the defined benefit plans for public employees and for teachers were permitted to transfer to the new defined contribution plans.

See Senate Bill 1, First Special Session of 2005, *Alaska Statutes*, chapter 14.25. http://www.legis.state.ak.us/basis/statutes.asp?title=14#14.25

The District of Columbia. In 1987, the District closed its defined benefit plan to new employees and replaced it with a defined contribution plan and Social Security membership.

See *District of Columbia Official Code* Title 1, Chapters 7 and 8.

Michigan. A state defined contribution plan has been mandatory for new state employees since March 31, 1997. Members of the closed defined benefit plan were allowed to transfer to the new DC plan if they chose. The state contributes 4% of salary to each employee's account. Employees may choose whether to contribute at all, but may contribute as much as 12% of salary. The state will match an additional 3% above its 4% basic contribution, for a maximum 7% employer contribution. Employer contributions go into a 401(k). Employee contributions above the initial 3% may go into the 401(k) or into a 457 plan.

See Public Act 487 of 1996 (House Bill 6229) as compiled at *Michigan Compiled Laws*, Chapter 38, sections 1 – 69. http://legislature.mi.gov/doc.aspx?mcl-Act-240-of-1943

2011 legislation required active members of the closed defined benefit plan for state employees to begin making a contribution of 4 percent of compensation toward pension costs beginning April 1, 2012, or freezing the service credit they have earned in the DB plan and converting to the DC plan for future service. Those who fail to make an explicit choice will be enrolled in the DC plan.

See Public Act 264 of 2011 (House Bill 4701).

Minnesota. The Defined Contribution Plans (DCP) administered by the Public Employees' Retirement Association are tax deferred retirement savings programs established by the Minnesota Legislature in Minnesota Statutes, Chapter 353D. The DCP is exclusively for physicians, elected local governmental officials, city managers, and governmental volunteer ambulance service personnel.

Members of the DCP designate a percentage of total contributions to be placed in one or more of seven accounts of the Minnesota Supplemental Investment Fund. Employee and employer contributions are combined and used to purchase shares in the accounts selected by the employee. Upon termination of service a DCP member is entitled to a lump-sum payment of the values of shares held, with interest or dividends that have accrued. No monthly retirement benefits are available. Contribution rates vary by member classification.

See http://www.mnpera.org/index.asp?Type=B_BASIC&SEC={8219D0EF-DA92-4EB9-B225-A9B5B8A2965C}

Utah. Legislation enacted in 2010 provided a defined contribution plan as one option available to state and local government employees hired on or after July 1, 2011. The alterative option is a hybrid plan, described below in this report. The defined contribution plan will provide individual employee accounts to which employers will contribute 10% of employee compensation for public employees, legislators and the governor. The contribution rate will be 12% for public safety and firefighter members. Employees are not required to contribute but may do so, either to the same DC plan or to any other DC plan the employer offers. Employee contributions (if any) are immediately vested. Employer contributions will be vested after four years' covered employment. Employees may direct the investment of their contributions and the investment of employer contributions after those are vested.

See Chapter 266, laws of 2010 (Senate Bill 63)

West Virginia. In 1991, the state created a defined contribution plan for teachers and closed its defined benefit plan to new enrollment. In 2005, the defined contribution plan was closed to new enrollment. In 2006, the members of the defined contribution plan voted to merge it with the state's defined benefit plan for teachers. Various legal challenges ensued, which were resolved in May 2008 through legislation that allowed individual members of the defined contribution plan to choose whether to transfer each person's membership to the West Virginia Teachers Retirement System (a defined benefit plan).

See *West Virginia Code*, Chapter 18, Article 7B. and PlanSponsor Magazine, "State Plan Sponsor of the Year: A Lesson in Funding" *(*December 2009). http://www.plansponsor.com/MagazineArticle.aspx?id=4294990027

A Number of States in recent years have created defined contribution plans as the primary coverage for elected officials and political appointees. To some degree these plans are a response to term limits for legislators and other elected officials. Such states include Colorado, Louisiana, Nevada, Utah, Vermont and Virginia. In Colorado, legislative staff hired after July 1, 1999, have had the choice of a defined contribution retirement plan. 2008 legislation extended the Utah optional defined contribution plan to some legislative staff.

Part 2b. Defined Contribution Plans as an Optional Primary Plan

In the states listed below, new employees may elect to be members of a defined benefit plan or a defined contribution plan, but must be a member of one or the other. Under current law in these states, both kinds of plan remain open to new members, and limited transfer between them is available.

Colorado. In 2004, Colorado created a defined contribution plan as an option for state employees, effective January 1, 2006. On the same date, Colorado opened its existing defined contribution plan for elected officials to general membership, giving new employees one defined benefit and two defined contribution plans among which to choose. Chapter 73, Laws of 2009, closed the elected officials' plan to new members, but the defined contribution plan created in 2004 remains as a option for new state employees.

Florida. In 2000, the state established a defined contribution plan (the Florida Retirement System Investment Plan) as an optional alternative to its defined benefit plan. Existing DB members could join the new plan. Existing members also were given a third option of transferring to a hybrid plan (described below) that combines features of DB and DC plans. The third option is not available to employees who joined the workforce after the creation of the alternative plans.

Indiana. In 2011, Indiana established a defined contribution (DC) plan as an option for new state employees. A state employee who does not make an explicit choice to become a member of the DC plan becomes a member of the Public Employees' Retirement Fund (PERF), which is a hybrid plan, described below.

The bill requires the PERF Board of Trustees to establish the same investment options for the DC plan that are available for the investment of a PERF member's annuity savings account. It provides that a member's contribution to the Plan is 3% of the member's compensation and is paid by the state on behalf of the member. It also provides that the state's employer contribution rate for the Plan is equal to the state's employer contribution rate for PERF. It also provides that the amount credited from the employer's contribution rate to the member's account shall not be greater than the normal cost of PERF with any amount not credited to the member's account applied to PERF's unfunded accrued liability.

The bill establishes a minimum state employer contribution of 3% of plan members' compensation.

The bill establishes a five-year vesting schedule for employer contributions, and requires a member who terminates state employment before the member is fully vested to forfeit amounts that are not vested. It establishes provisions for the withdrawal of amounts in member accounts. The bill also authorizes rollover contributions to the plan.

See Public Law No. 22-2011 (Senate Bill 524).

Montana. In 2002, the state created an optional defined contribution plan for state, local, university, and school district employees other than teachers. Current members of the defined benefit plan were allowed one year to transfer to the new plan.The plan covers eligible employees of the state, university system, local government and certain employees of the school districts that elect the defined contribution plan. All new hires initially are members of the Public Employee Retirement System defined benefit pan, and have a 12 month window in which they may make an irrevocable choice between the defined contribution plan and the DB plan. The defined contribution plan provides retirement, disability and death benefits to plan members and their beneficiaries. Employees contribute 7.17% of salaries, and employers contribute 7.37% of salaries to the plan.

See Montana Codes Annotated Title 19, chapters 2 and 3.

North Dakota. In 1999, the state created an optional defined contribution plan for "exempt" or non-classified state employees, 75% of whom are employees in the higher education system.

Ohio. From 1998 through 2002, the state created optional defined contribution plans for education employees, teachers and general state and local government employees. Employees not yet vested in the state defined benefit plan had the option of moving to the new plan. As noted below, Ohio also offers a third optional plan, a hybrid plan with both defined benefit and defined contribution features.

South Carolina. In 2000 and 2002, the state created optional defined contribution plans for existing and new state and local government employees and teachers.

Part 3. Hybrid Plans

These plans provide features of both defined contribution and defined benefit plans. One form of hybrid plan is the cash balance plan. A somewhat more common form in state government provides each member with both a defined benefit plan and a defined contribution account.

As a general rule, these plans maintain a defined contribution plan for employee contributions and a defined benefit plan for employer contributions. The Georgia plan created in 2008 and the Michigan teachers' plan of 2010 differ from this general rule in that employees may continue in the defined benefit portion of the plan but terminate their participation in the defined contribution component.

Florida. In 2000, when the state established its optional defined contribution plan, members of the existing DB plan were given a third option of transferring to a hybrid plan. The third option has not since been available to new employees.

Georgia. Act 757 of 2008 (Senate Bill 328) created a hybrid retirement plan for Georgia state employees. The "Georgia State Employees' Pension and Savings Plan" (GSEPS) provides a defined benefit plan (DB) and 401(k) plan for new hires on and after January 1, 2009 and an opt-in to those employees who belonged to the Employee Retirement System (ERS) on December 31, 2008. The ERS Board of Trustees will administer the new plan.

People who first or again become an employee entitled to membership in ERS on or after January 1, 2009 will be required to join GSEPS. The DB formula will be 1% for each year of service times the average of the highest 24 consecutive calendar months of salary while a member. The formula can be increased in the future up to 2% by the board of trustees provided funds are appropriated by the General Assembly. Vesting in the DB is 10 years.

GSEPS members will be automatically enrolled in the 401(k) plan and will have a one-time 90 day window to opt out of the 401(k) and receive a refund of the account balance at that time. Participating members can stop and start 401(k) participation at any time thereafter. However, funds in the 401(k) must remain in the fund until separation. Participation in the 401(k) requires a mandatory employee contribution of 1% of compensation with voluntary elective contributions after the first 1%. Each employer will match the first 1%, plus a 50% match for each percent above the first 1% up to a total 3% employer match. Participants may contribute up to the IRS maximum limit each year. Employee contribution are vested when made, and employer contributions are vested over five years at a rate of 20% per year.

Indiana. For decades, retirement plans for state employees and teachers have consisted of an Annuity Savings Account (a defined contribution component) made up of employee contributions and a defined benefit funded by employer contributions. The state employee plan was created in 1945; the teachers' plan was instituted in 1921.

Michigan. Act 75 of 2010 (SB 1227) created a hybrid retirement plan for members of the Public School Employees Retirement System.

Employees first hired on or after July 1, 2010, will be placed in a new "hybrid" pension plan, with a blending of defined benefit (DB) and defined contribution (Tier 2) components. A person under this plan will not be able to receive pension payments until age 60, and will be required to have worked at least 10 years as a public school employee. The purchase of service credit by these employees is prohibited, and cost-of-living adjustments to the pension are not provided. An employee will have to contribute $510 annually plus 6.4% of salary above $15,000, in addition to the Tier 2 contributions described below.

An employee under this plan will have to contribute 2.0% of salary to his or her Tier 2 account, unless affirmatively electing not to contribute or to contribute a lesser amount. The employer will have to match 50% of the employee's first 2.0% of salary contribution, for a maximum total employer payment of 1.0% of salary deposited into the Tier 2 account. This is in addition to the employer cost for the DB pension of this employee. The employee will be allowed to contribute more than 2.0% of salary, but the employer will not match more than 1.0%, unless choosing to do so under a locally negotiated agreement. An employee described here is immediately vested in his or her own contributions, and will vest in employer contributions as follows: 25% after two years of service, 75% after three years of service, and 100% after four years of service.

The defined benefit side of this hybrid plan will use a five-year period on which to calculate the final average compensation (FAC), likely generating a lower FAC than is in current law. (For Basic Plan members, the time frame is five years; for MIP members, the time frame is three years.) Also, under this plan, the actuary will be required to assume a 7.0% rate of return on the investments in the portfolio (rather than the 8.0% rate under current law). The actuary may determine a different employer contribution rate for these members.
See Act 75 of 2010 (SB 1227).

Ohio. The retirement plan revisions from 2000 through 2002 that created an optional defined contribution plan for Ohio teachers and other employees also created the third option of a hybrid defined-benefit/defined contribution plan.

Oregon. The public employee retirement plan (which includes teachers and other education personnel) created in 2003 consists of a defined benefit program called "the pension program" funded by employer contributions and a defined contribution program called the "individual account program," funded by employee contributions.

Rhode Island. Legislation enacted in 2011 provided for closing the defined benefit plan of the Rhode Island Employee Retirement System (ERS) on July 1, 2012, and created a hybrid plan for all existing members of ERS as of that date as well as new members of the system, except for judges and some public safety members. The hybrid plan will consist of a reduced defined benefit plan and an individual account for each members.

Members are required to contribution to the defined contribution component and may not opt out of it. For most members, contributions are unchanged from the total amount required for the former DB plan, although the allocation of the contributions has been changed.

See Chapter 408, Public Laws of 2011 (Senate Bill 1111) and the website of the Rhode Island Employee Retirement System:
http://www.treasury.ri.gov/secure-path-ri/legislation.php

Virginia. Act 702 of 2012 provided a hybrid retirement plan for state and local employees and teachers, other than law enforcement personnel, who enter the Virginia Retirement

System on or after January 1, 2014. It includes mandatory defined benefit and defined contribution components.

- For the DB component of the hybrid plan, the vesting, age and service requirements for normal and early retirement and calculation of average final compensation are the same as for Plan 2 DB members. Vesting is at five years; normal retirement is at a person's Social Security age with five years of service or at the Rule of 90. Early retirement is available at the age of 60 with five years of service. Average final compensation is the average of the highest 60 months.
- The hybrid plan DB multiplier will be 1.0%
- Each member of the hybrid plan will be required to make contributions to both the DB and DC component. The employee contribution to the DB component will be 4%. The mandatory employee contribution to the DC component will be 1%, and employees may contribute up to 5% of salary to earn an additional partial employer match.
- The legislation includes a provision to increase an employee's contribution automatically by 0.5% of compensation every three years until members reach the maximum contribution rate. Matches will apply to the increased contribution as described below. Employees may opt out of the automatic increase in the employee contribution rate.
- Employer contributions for the DB plan will be actuarially determined at the rate set for the legacy defined benefit plans. Employer contributions to each employee's DC account will be as follows:
    - For the 1% mandatory employee contribution, 1% of salary.
    - For the first 1% voluntary employee contribution, 1%.
    - 0.5% for each additional 1% voluntary contribution, up to the full 5% that is subject to match.
    - The total possible employer contribution would be 3.5% on a 5% employee contribution.
- Vesting of employer contributions will begin at 25% after an employee has participated continuously in the program for one year, increasing at 25% a year until the employee is fully vested in the employer contribution after four years of continuous membership.

See Chapter 702, Laws of 2012 (House Bill 1130)
http://leg1.state.va.us/cgi-bin/legp504.exe?ses=121&typ=bil&val=hb1130

Utah. Legislation enacted in 2010 provided a hybrid retirement plan as one option available to state and local government employees hired on or after July 1, 2011. The other option is a defined contribution plan described earlier in this report.

The hybrid plan (§29) includes a defined benefit and a defined contribution component.

- For the DB component, employers will pay up to 10 percentage points of an employee's compensation toward the amount that is required to keep the plan actuarially sound. The employee will contribute any additional amount required to make up the actuarial requirement.

- For the DC component, employers will contribute 10% of employee compensation less the amount the employer contributes to the DB component. The employer contribution will be deposited in a 401(k) plan to which the member may choose, but is not required, to make additional contributions. Employer contributions will vest after four years' membership in the plan; employee contributions vest immediately. The member may direct the investment of his or her contributions immediately, and those of the employer after they are vested.

See Senate Bill 63 of the 2010 Utah legislative session.

Washington. The 1998 Teachers' Retirement Plan Tier 3 consists of defined contribution and defined benefit elements, funded respectively by employee and employer contributions. This plan is mandatory for teachers hired since the plan's inception. Legislation in 2000 created a similar but optional Public Employee Retirement System Plan 3 for state and local government and higher education employees. State and local employees who do not select the hybrid plan are enrolled in a defined benefit plan.

Sources

In addition to the sources listed in the text, this report is based on NCSL's series of annual summaries of state legislation concerning state pension and retirement plans. The summaries are available on the NCSL website at http://www.ncsl.org/default.aspx?tabid=13399 Other information has been taken from the websites of the retirement systems mentioned in the text.

NATIONAL CONFERENCE of STATE LEGISLATURES

The Forum for America's Ideas

PENSIONS AND RETIREMENT PLAN ENACTMENTS
IN 2012 STATE LEGISLATURES

August 31, 2012

INTRODUCTION

ABOUT THIS REPORT. This report summarizes selected state pensions and retirement legislation enacted in 2012. Its goal is to help researchers and policy makers know how other states have addressed issues that could arise in any state. In keeping with that goal, the report excludes most clean-up legislation, cost-of-living adjustments, administrative procedures and technical amendments. This report is organized according to the topics that legislatures addressed in 2012, listed at the end of this introduction.

Material in brackets is explanatory information in addition to the summary of an act. Not all legislation had received chapter or act numbers when this report was compiled.

FINDINGS. So far in 2012 eight states have made major structural changes in state retirement plans. **Kansas, Louisiana** and **Virginia** replaced defined benefit plans with cash balance or hybrid plans for new employees. **Michigan** has added an optional defined contribution plan for public school employees.

- **Alabama** will close its existing retirement plan for most state and local government employees on December 31, 2012, and replace it with a new defined benefit tier that includes higher age and service requirements for retirement, a longer period for calculating final average compensation, a lower multiplier for calculating benefits, and, uniquely in 2012, a reduced mandatory employee contribution.
- **Kansas** concluded a two-year reconsideration of its defined benefit retirement plans for state, school and local public employees with new statutory provisions that include generally higher contributions from current employees (or a reduction in benefits) and a cash balance plan for most new state, school and local public employees hired on or after January 1, 2015.
- **Louisiana** will close its defined benefit plan for most state government employees and employees of higher education on July 1, 2013, and replace it with a cash balance plan.
- **Michigan** will offer new members of the Public School Employees' Retirement System a defined contribution plan option in addition to the hybrid plan that has been mandatory for new members since July 2010. Members of previously-closed defined benefit plans will be required to choose between higher contribution rates or lower future benefit accrual rates, along with an option to move to a defined contribution plan. The state also terminated retiree health insurance coverage for

members of the plan, replacing it with employer matches to employee contributions to deferred compensation plans plus a lump-sum termination payment.

- **New York** closed its latest retirement tier for state and local employees, including most New York City employees, on March 31, 2012, and replaced it with a Tier 6 plan that increases the age of retirement, and provides a longer period for calculating final average compensation and a lower multipliers for calculating benefits. The legislation will increase employee contribution requirements with an unusual plan of scaling contributions to the amount of employees' salary.
- **South Carolina** enacted legislation to increase employee contributions for current and new employees, increase age and service requirements for retirement with full benefits, provide a longer period for calculating final average compensation, cap future cost-of-living increases and terminate a deferred retirement option for general employees and teachers.
- **Virginia** enacted legislation to require local government plan members to begin contributing 5 percent of salary to retirement plans, contributions that for many years have been picked up by employers. Local government employers will provide an offsetting salary increase. Separate legislation will close defined benefit plans for most state and local government employees at the end of 2013 and replace them with a hybrid plan with defined benefit and defined contribution components. Legislation also limited future cost-of-living increases.
- **Wyoming** created a new defined benefit plan tier applicable to state and local government employees as of August 31, 2012. The new tier includes higher age and service requirements for retirement, a longer period for calculating final average compensation and a lower multiplier for calculating benefits. Contribution requirements are unchanged. Separate legislation provides that cost-of-living adjustments will be granted in the future only when the retirement system is fully funded.

SOURCES AND ACKNOWLEDGMENTS. The sources of this report are StateNet searches of current and enacted legislation, retirement systems' websites, state legislatures' reports of enacted legislation, and information provided by legislative and retirement system staff. NCSL is indebted to the many legislative staff who write and share summaries of their legislatures' acts, the many retirement system staff who have posted legislative summaries on their web sites, and the staff of legislatures and retirement systems who have taken time to identify and explain legislation and its context.

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1. Contribution Rates and Funding Issues

Alabama. Act 377 of 2012 (Senate Bill 388) creates a new tier of membership for the Employees' Retirement System, the Teachers' Retirement System, and the ERS plan for state police, effective for those first joining one of the plans on or after January 1, 2013. It reduces future benefits by lengthening the period over which final average salary is calculated and by increasing retirement ages. It reduces required employee contributions for all Tier II members except state police members, in comparison with rates for Tier I members.

	Tier I	Tier II
ERS and TRS	7.5%	6%
ERS State Police Plan	10%	10%
ERS other law enforcement and fire	8.5%	7%

The legislation will result in lower 2013 estimated employer contributions as follows:

	Tier I	Tier II
ERS (all members except state police)	10.12%	10.04%
TRS	10.08%	9.44%
ERS State Police Plan	31.61%	25.32%

The changes are estimated to save employers approximately $5 billion from fiscal year 2016 through fiscal year 2043.

Arizona. Chapter 304, Laws of 2012 **(**HB 2264), reverses employee contribution increases enacted in 2011 that have been declared unconstitutional by the Arizona Superior Court. Chapter 26, Laws of 2011, changed contribution requirements for the Arizona State Retirement System to require that employees contribute 53 percent of benefits and costs of administering the program, an increase from 50 percent. House Bill 2264 retroactively reverts the contributions to a 50/50 division, effective immediately. The excess contributions are to be returned to employees. The bill appropriates about $40 million to cover state and local governments employers' costs of the reimbursements.

Hawaii. Act 153, Laws of 2012 (House Bill 2487), assesses the last employer for those employees who meet the criteria of high compensation levels due to overtime and other non-base pay increases (also known as “pension spiking”) in the last years of employment. The unfunded portion attributed to these significant non-base pay increases are required to be paid by the last employer by the next fiscal year after the employee retires.

Kansas. Chapter 171, Laws of 2012 (House Bill 2333), re-enacts certain modified changes in contribution requirements for active members of the Kansas Public Employees' Retirement System enacted in 2011. The plans for public safety employees and judges were not changed.

- They will select between the options in a 90-day election period beginning on July 1, Tier 1 members are provided contribution options as follows in 2013 (subject to IRS approval). [Tier 1 was closed to new members on June 30, 2009.]
    - The first option is the default in the case a member fails to choose or in case the IRS disapproves the election of the options. It will increase the employee contribution from 4% to 6% over two years and provide an increase in multiplier from 1.75% to 1.85% for future years of service
    - The alternative option will be to freeze the employee contribution rate at 4% and reduce the member's multiplier for future service from 1.75% to 1.4%.
- All Tier 2 members will continue the existing employee contribution rate of 6% of salary. The legislation eliminates their post-retirement cost-of-living benefit increases. The legislation also increases their annual multiplier for all past and future service from 1.75% to 1.85%.

The legislation also raises the annual rate of increases in statutory caps on employer contributions to KPERS. Under current law, employer contributions are allowed to increase 0.6% annually. This legislation increases the *rate* at which employer contributions may increase. The 0.6% *rate cap* is increased to 0.9% for FY 2014 and by increments to 1.2% for FY 2017. The same changes will apply to local government employers on a calendar year basis.

The legislation also provides that a share of state gaming revenues from state-owned casinos will be directed to the KPERS unfunded liability beginning in FY 2014, when the amount is estimated to be $30 million. Also, 80% of the proceeds from any sale of state surplus real estate will be directed to the KPERS unfunded liability until the retirement system reaches an 80% funded ratio.

Maryland. Chapter 485, Laws of 2012 **(**Senate Bill 335), increased the member contribution for Judicial Retirement System members from 6% to 8% of earnable compensation. The increase matches the two percentage point increase in member contribution rates enacted in 2011 for members of the Teachers' Pension System and the Employees' Pension System (EPS).

Maryland. Chapter 1, Acts of the 2012 Special Session (Senate Bill 1301), the Budget Reconciliation and Financing Act of 2012, in the article on state personnel and pensions, provides for shifting a portion of the employer contribution for teachers who are members of the Maryland State Retirement and Pension System from state government (which has paid the full employer contribution for members until now) to local school boards.

- Retirement costs are shared for school boards only (excludes libraries and community colleges).
- School boards will pay the normal cost of retirement phased in over four years with concurrent county-paid maintenance of effort increases. They will be responsible for 50% of the normal cost in FY 2013 and all of the normal cost in FY 2016.

- The required maintenance of effort amount paid by counties increases each year by the additional pension costs during the phase-in period.
- Increased pension costs are offset by new county revenues and local aid to counties and school boards beginning in fiscal 2013 and 2014, and federal fund reimbursement relief to school boards beginning in FY 2015.
- State government maintains its responsibility to pay for the unfunded accrued liabilities of the system, as well as a portion of the normal cost and any costs above the estimates during the phase-in period.

The normal cost for which school boards will be responsible is estimated to increase from $137 million for FY 2013 to $255 million for FY 2016, when it will be entirely shifted to the boards. The new assessment has been offset with various revenue increases and increases in state aid to local governments.

Michigan. Senate Bill 1040 (to the governor August 15, 2012) makes changes in contribution requirements for two closed tiers of the Public School Employees' Retirement System.

Currently, employees hired prior to 1990 who never transferred into the Member Investment Plan (MIP) are in a noncontributory plan called the Basic Plan and contribute 0% for their pension benefits.

Employees hired since January 1990 but before July 2010 or former Basic members who transferred into the MIP plan contribute between 3% and 6.4%, depending on their level of compensation and their hire date, in return for an enhanced pension benefit compared to the original Basic Plan.

The bill would require that employees currently in either the Basic or MIP pension plan choose (by October 26, 2012) among the following options, which would take effect in December, 2012:

1. Increase their contribution to 4% for the Basic Plan and 7% for the Member Investment Plan (MIP) and maintain the current 1.5% pension multiplier. Currently MIP contributions are graduated based on income, but Senate Bill 1040 (H-3) would require a flat 7% on all compensation. The bill specifies that the employee contributions could not exceed the normal cost of the pension benefit. Employees who chose to pay an increased contribution could choose to contribute either until their retirement or until they reach 30 years of service, at which point their contributions would decrease to current levels and their pension multiplier for years of service that exceed 30 would decrease to 1.25%

2. Maintain current contribution rates, freeze existing benefits at the 1.5% multiplier, and receive a 1.25% pension multiplier for future years of service.

3. Freeze existing pension benefits and move into a defined contribution (DC), 401(k)-style, plan with a flat 4% employer contribution for future service.

In addition, Senate Bill 1040 offers new members of the Public School Employees' Retirement System as of September 4, 2012, the option of choosing between the existing DB/DC hybrid plan, [enacted in 2010] and a defined contribution plan. The latter will provide employees a 50% match on employee contributions up to 6% of the employee's salary. The maximum employer match would be 3% of salary. Members will be automatically enrolled in the plan at the 6% contribution level, but may choose to contribute less or to make no contributions. There will be no employer contribution in the absence of employee contributions.

In addition, the legislation includes two significant changes to the employer contribution rates:

- The legislation will re-amortize the cost of the early retirement program of 2010 from five years to 10 years in order to create short-term savings and allow additional funding in the short term to be redirected to prefunding retiree health care for greater long-term savings.
- Second, the bill would cap the employer rate for the unfunded accrued liability at 20.96% of payroll, with intent to provide School Aid Fund contributions to pay the amount of annual exceeds the employer maximum rate.

New Hampshire. Chapter 261, Laws of 2012 (House Bill 1483), repeals legislation of 2008 scheduled to take effect July 1, 2012, which states that if a municipal public employee's final average pay is greater than 125 percent of the employee's average base pay, cities and towns must pay the part attributed to "spiking." According to the New Hampshire Retirement System, the anti-spiking law was enacted to "discourage employers from allowing extreme end-of-career spikes in earnable compensation." The system states with the "spiking-charge" in effect, those employers paying the charge will contribute, over an extended period of time, a greater percentage of payroll than those employers who are not subject to the "spiking-charge". Municipal governments sought the repeal to ward off unanticipated charges from the retirement system.

New Jersey. Senate Concurrent Resolution 110 (passed by both chambers and filed with the Secretary of State; does not require the governor's signature) proposes a constitutional amendment that clarifies the Legislature's authority to enact laws that deduct contributions from the salaries of Supreme Court Justices and Superior Court Judges to help fund their employee benefits, which include their pension and health care coverage. The amendment specifically concerns only these justices and judges, as only their salaries are referenced and protected from various reductions, during their terms of appointment, under the current provisions of Article VI, Section VI, paragraph 6 of the New Jersey Constitution.

The amendment responds to a question raised in a 2011 lawsuit, DePascale v. State, MER-L-1893-11, filed after the Legislature passed and the Governor signed into law P.L.2011, c.78 . That law increased the contributions to be deducted from the salaries of current and future Supreme Court Justices and Superior Court Judges (as well as other public employees), starting in October 2011. The lawsuit, which was appealed to the State's Supreme Court argued for stopping the higher contributions with respect to currently appointed justices and judges, citing to the Constitution's Article VI, Section VI, paragraph 6, which states that salaries for justices and judges "shall not be diminished during the term of their appointment."

The amendment adds language to that provision to clarify that benefit contributions may be deducted from justices' and judges' salaries during their terms, as set from time to time by law. It would become part of the New Jersey Constitution immediately upon approval by the voters, and make the higher benefit contribution requirements of P.L.2011, c.78
applicable to all current and future justices and judges as of that date.

Source: New Jersey Senate Budget and Appropriations Committee
http://www.njleg.state.nj.us/2012/Bills/SCR/110_S1.HTM

New York. Chapter 18, Laws of 2012 (Senate Bill 6735) establishes Tier VI retirement plans affecting most new members of the state and New York City retirement plans as of April 1, 2012.

As it relates to new members of the New York State Teachers' Retirement System and the New York State and Local Retirement System, the legislation requires 3.5% contributions regardless of salary until April 1, 2013. Thereafter, the contribution rate in a given year is based upon regular compensation in the year two years previously, as follows:

- Wages of $45,000 or less..................3%
- More than $45,000 to $55,000..........3.5%
- More than $55,000 to $75,000..........4.5%
- More than $75,000 to $100,000........5.75%
- More than $100,000 to $179,000......6%
- No contribution on earnings in excess of the governor's salary, currently $179,000

[For comparison, the Tier V state and local employee contribution is 3% and the teacher's system's employee contribution is 3.5%.]

South Carolina. Act 278, Laws of 2012 (House Bill 4967), increases employee and employer contribution rates for the South Carolina Retirement System. The increases affect current members and new hires. Employee contributions will increase from the current rate of 6.5% to 8% in 0.5% increments beginning on July 1, 2012 with the final increase effective on July 1, 2014. Employer contributions will increase from 10.6% to 10.9% over the same period. If additional contribution increases are required, both employee and employer contribution rates are increased to maintain a 2.9 percentage point differential between the rates. No decrease in contribution rates may be made until the system is at least 90% funded.

For current and new members of the Police Officers' Retirement System, member contributions will change as above. Employer contributions will increase from 12.3% at present to 13% on July 1, 2014. The 5 percentage point differential will be maintained if additional increases are required.

For current members of the General Assembly Retirement System, employee contributions will increase from the current 10% to 11% on January 1, 2013. This legislation closes the plan to people first elected to the General Assembly in November 2012 and after.

Virginia. Act 702 of 2012 (HB 1130/Senate Bill 498) establishes a hybrid plan applicable to most new state and local government employees as of January 1, 2014. General plan provisions are summarized in Part 6 of this report.

Mandatory employee contributions for the hybrid plan will total 5% of salary, the same as the member contribution for Virginia Retirement System (VRS) defined benefit plans. Employees must contribute to both the DB and the DC component of the hybrid plan.

- The employee contribution will be 4% to the DB component and 1% to the DC component. Employees may contribute as much as an additional 4% of salary to the DC component to earn an additional partial employer match.
- Employer contributions for the DB plan will be actuarially determined at the rate set for the legacy defined benefit plans. After employers' matches for employee DC plan contributions are satisfied, any excess employer contribution will be credited to the accrued unfunded liability of the VRS defined benefit plans. The fiscal note to HB 1130 says: "Because the legacy defined benefit plan is not being closed in order to implement the hybrid plan, the more significant contribution rates that would otherwise result from a complete shift to a defined contribution plan are avoided."

- Employer contributions to each employee's DC account will be as follows:
  - For the 1% mandatory employee contribution, 1% of salary.
  - For the first 1% voluntary employee contribution, 1%.
  - 0.5% for each additional 1% voluntary contribution, up to the full 5% that is subject to match.
  - The total possible employer contribution would be 3.5% on a 5% employee contribution.
- Vesting of employer contributions to the DC account will begin at 25% after an employee has participated continuously in the program for one year, increasing at 25% a year until the employee is fully vested in the employer contribution after four years of continuous membership.

Virginia. Act 822 of 2012 **(**Senate Bill 497) affects contributions to the Virginia Retirement System from local governments and local government employees. It provides that:

- School division and political subdivision employees whose employers currently pay all or part of the 5% Plan 1 or Plan 2 member contribution will begin paying the contribution on a salary reduction basis on July 1, 2012.
- Employers may, at their option, phase in the member contribution over five years, except that new or returning employees as of July 1 must make the entire 5% contribution.
- Localities and school boards are required to increase employee compensation on 7/1/12 to offset the member contributions.
- The offsetting raise is to be effective July 1 unless a government is phasing in the member contribution.
- Plan 1 or Plan 2 employees who were paying the member contribution or some portion of it as of January 1, 2012, will not receive an offsetting raise for the amount they were already paying as of that date.
- As enacted, the legislation will allow all local government employers to phase in the offsetting salary increases it requires for local government employees over five years.

Wyoming. Chapter 23, Laws of 2012 (Senate File 30 /Senate Enrolled Act 11) increases the contribution rate for the Warden, Patrol & DCI Plan by 3.25 percent. The increase was split between employers and employees, with the employer share increasing by 1.63 percent and the employee share increasing by 1.62 percent. The 1.62 percent increase in the employee share will be deducted from employee pay as of July 1, 2012.

2. Cost-of-Living Adjustments.

Please note: This section does not attempt to track all post-retirement benefit increases or cost-of-living adjustments; it reports changes in the enabling legislation for such benefits.

Kansas. Chapter 171, Laws of 2012 (House Bill 2333), repeals post-retirement cost-of-living increases for Tier 2 members of the Kansas Public Employee Retirement System (those hired on or after July 1, 2009). Members will instead receive a higher multiplier, 1.85 percent instead of 1.75 percent, for all service, effective for those who retire on and after January 1, 2014. The repeal of the COLA does not affect members who retire before July 2012.

North Carolina. Senate Bill 803 (to governor June 20, 2012) clarifies that the Board of Trustees of the Local Governmental Employees' Retirement System has full discretion over the granting of post-retirement increases as long as any changes are not inconsistent with actions of the General Assembly. The long-time policy of the State of North Carolina is to provide ad hoc Cost of Living Adjustments (COLAs) to retirees, rather than automatic COLAs. This clarification is being sought in anticipation of forthcoming standards from the Governmental Accounting Standards Board that would potentially create unfunded long-term liabilities for local government employers based on an alternate reading of this statute that would require trustees to give automatic COLAs.

Oklahoma. Chapter 109, Laws of 2012 (HB 2322), removes a statutory requirement that the Oklahoma Public Employees Retirement System (OPERS) include an estimate of the actuarial impact of potential future cost-of-living increases in its annual actuarial studies. This conforms with language enacted in Senate Bill 794 of 2011. The removal of the actuarial cost of potential COLAs has had a substantial effect in reducing the OPERS UAAL. [COLAs in Oklahoma are not automatic, but are periodically enacted.]

South Carolina. Act 278, Laws of 2012 (House Bill 4967), changes the COLA provision for retired members (and future retirees) of the South Carolina Retirement System from an automatic annual benefit adjustment of 1% to 1% subject to an annual cap of $500, effective July 1, 2012. The same new provision will apply to the Police Officers' Retirement Plan, which has not had a guaranteed annual COLA in the past.

Virginia. Act 702 of 2012 (HB 1130/Senate Bill 498) makes various changes to Plan 1 and Plan 2 of the Virginia Retirement System as well as establishing a hybrid plan applicable to most new state and local government employees. Plan 2 affects members hired or rehired as of July 1, 2010. The following provisions address the defined benefit component of the new hybrid plan as well as the specified Plan 1 and Plan 2 members. The legislation:

- Caps cost-of-living increases at 3% for new hires, Plan 2 members and any Plan 1 member not vested as of January 1, 2013. The COLA will match the first two percentage points of an increase in the CPI-U plus half of the increase in the next two percentage points.
- Defers cost-of-living increases for any member who retires with less than 20 years of creditable service until one year after attaining unreduced retirement eligibility. Employees within five years of eligibility for an unreduced benefit as of January 1, 2013, are grandfathered.

Wyoming. Chapter 107, Laws of 2012 (Senate Bill 59), expresses the intent of the Legislature that the board of trustees of the Wyoming Retirement System (WRS) grant no post-retirement benefit increases until the system is fully funded with a likelihood of remaining so despite future investment fluctuations. The act instructs the Board of Trustees to educate members of WRS on the point and emphasize to them that public retirement benefits "should not be expected to provide one hundred percent (100%) of the member's required income in retirement…."

[Under existing law, as summarized in the WRS *Public Employee Pension Plan Handbook*, the WRS Board may grant an annual cost of living increase up to the actual inflation rate in Wyoming, but not above 3%. The COLA must be deemed affordable by the actuaries who compare total liabilities to assets of the plan.]

3. Deferred Retirement Option Plans (DROP)

South Carolina. Act 278, Laws of 2012 (House Bill 4967), terminates the state Teacher and Employee Retention Incentive (TERI) program, a deferred retirement option. Enrollment in the program will remain open until January 2, 2013. Participants must end their participation within five years of beginning in the program (as in current law) or by June 30, 2018, whichever is earlier.

4. Defined Benefit Plan Changes

Alabama. Act 377 of 2012 (Senate Bill 388), creates a new tier of membership for the Employees' Retirement System (ERS), the Teachers' Retirement System (TRS), and the ERS plan for state police, effective for those first joining one of the plans on or after January 1, 2013. It reduces future benefits by lengthening the period over which final average salary is calculated and by increasing retirement ages.

For all members, the base for final average salary is changed from the highest three of the last 10 years of service to the highest five. Tier II members will be unable to convert unused sick leave to creditable service, as Tier I members may.

The Tier I provision for retirement in any of the plans after 25 years of service will not apply to Tier II. Age and service requirements for normal retirement for TRS members and general state and local government employees are changed from age 60 with 10 years of service (the vesting requirement) to age 62 with 10 years of service.

For state police, the change is from 52/10 to 56/10. For other state and local law enforcement members and firefighters, the change is from the former provisions of 25-and-out or 60/10 to 56/10.

The service multiplier for TRS and ERS members (including firefighters and law enforcement members other than state police) was reduced from 2.0125% of FAS for Tier I members to 1.65% of FAS for Tier II members, with benefits for Tier II members capped at 80% of final average salary. The multiplier for state police members was reduced from 2.875% to 2.375%.

Hawaii. Act 152 of 2012 (Senate Bill 1269) redefines the definition of final average salary for those who become members of the Employees' Retirement System as of July 1, 2012. It excludes overtime, supplementary payments, bonuses, lump sum salary supplements, allowances, or differentials, including differentials for stand-by duty, temporary unusual work hazards, compression differentials, or temporary differentials from the definition of compensation.

Idaho. Chapter 31, Laws of 2012 (House Bill 418), specifies that salary for the purposes of calculating retirement benefits does not include employer reimbursements for employee expenses related to travel.

Kansas. Chapter 171, Laws of 2012 (House Bill 2333), provides changes in various contribution and benefit provisions for current members of Tier 1 and Tier 2 of the Kansas Public Employees' Retirement System. See Part 1 of this report for details on the contribution changes. The legislation makes substantial additional changes in the existing KPERS plan, including closing Tier 2 to new membership as of December 31, 2014 (except for certain state correctional officers), and providing a cash balance plan (described in Part 5) for state, school and local public employees (other than certain state correctional officers) hired after that date.

Louisiana. Act 483 of the 2012 Regular Session (House Bill 61), provides for a cash balance retirement plan for certain members of the Louisiana State Employees' Retirement System (LASERS), and all members of the Teachers Retirement System of Louisiana (TRSL) and the Louisiana School Employees' Retirement System (LSERS), whose first employment making them eligible for state system membership begins on or after July 1, 2013. See Part 5 of this report for details.

Louisiana. Chapter 524, Laws of 2012 (Senate Bill 7), affects the Municipal Employees' Retirement System and changes the period over which final average compensation (FAC) will be calculated. The changes affect only the members of MERS who joined the retirement system on or before June 30, 2006. The legislation provides that FAC will be based on 60 months' compensation rather than 36 as has been law.

The change in the FAC period will be phased in. FAC for members who retire on or before December 31, 2012 will be based on 36 months. FAC for members who retire on or after January 1, 2013 but before December 31, 2014 will be based on 36 months plus the number of whole months after January 1, 2013. In no event will the final average compensation amount for a member who retires on or after January 1, 2013 be less than his FAC calculated on January 1, 2013.

The legislative actuary notes that the changes are potentially subject to legal challenge.

Maryland. Chapter 485, Laws of 2012 (Senate Bill 335),instituted a five-year vesting requirement for Judicial Retirement System (JRS) members hired on or after July 1, 2011. Before this legislation there was no vesting requirement for JRS members.

New York. Chapter 18, Laws of 2012 (Senate Bill 6735), establishes Tier VI retirement plans affecting most new members of the state and New York City retirement plans as of April 1, 2012. The changes include a new contribution schedule in which the required employee contribution varies with compensation; an increase in the normal retirement age; a reduction of the retirement multiplier; a change in the computation of final average salary to base the average of five years instead of three; various anti-spiking measures; a cap on the total amount of salary that can be included in final average salary; an optional DC plan for highly-compensated employees; and a requirement that the state fund any benefit enhancements to prevent costs from being transferred to local governments.

The governor's office estimates that the state will save $874 million over 10 years; New York City will save $1.8 billion, and that other member governments and authorities will cumulatively save $5 billion, for a total of about $5.9 billion over 10 years.

The changes affect the State Teachers' Retirement System, the State and Local Employees' Retirement System [which includes options for different categories of members and options for local governments to choose for their employees]; and five New York City plans. Most provisions do not apply to New York City police and fire employees. This report summarizes changes for general members of the State and Local Government plan and the state plan for teachers.

Chapter 18 and an explanatory fiscal note were available at
http://public.leginfo.state.ny.us/menugetf.cgi as of March 20, 2012.

As it relates to new members of the New York State Teachers' Retirement System and the New York State and Local Retirement System, the legislation:

- Increases the retirement age for an unreduced benefit to 63. Members who retire between age 55 and age 63 are subject to a reduction of 6.5% for each year that retirement precedes age 63. [Tier

V for teachers and ERS: Normal retirement at age 62/10 or later, or at 57/30. 55/10 was the minimum for retirement with a benefit reduction].

- Mandates a 5-year final average salary (FAS) calculation using regular compensation for determining retirement benefits. [Tier V for teachers and ERS: highest three years.]
- Excludes from the FAS calculation wages exceeding the average of the previous four years by more than 10%. [Tier 5 for both teachers and ERS used the previous two years' base to calculate the 10% cap.]
- Caps salary allowable in a FAS calculation at the New York State governor's salary [currently $179,000, this cap also is a cap on the amount of compensation subject to contributions after April 1, 2013. The cap will change when the governor's salary is changed.]
- Changes the pension multiplier for years of service to the following:

Service Credit	**Multiplier (also known as Pension Factor)**
Less than 20 years of service	1.67% for all service
20 years of service	1.75% for all service
Years exceeding 20 years of service	2% only for years exceeding 20

[The following multipliers are in effect for Tier V for teachers and the state and local employees' system:

Service Credit	**Multiplier (also known as Pension Factor)**
Less than 25 years of service	1.67% for all service
25 to 30 years of service	2% for all service
30 or more years of service	60% of FAS plus 1.5% for each year over 30

[Comparison of Initial benefits. Supposing a person retires with allowable compensation of $46,000, $47,000, $48,000, $49,000 and $50,000 for the last five years of service and a total of 30 years of service:

- Tier V provides an initial annual benefit of $29,400
- Tier VI provides an initial annual benefit of $26,400.

- Requires 10 years of service credit to vest. [for teachers and ERS, no change from Tier V]
- Requires a 6% contribution to purchase military and prior service.
- Allows non-unionized employees earning $75,000 or more hired after June 30, 2013 the option of a defined contribution plan rather than the NYSTRS defined benefit plan. For these employees, employers will contribute 8% of salary to the State University of New York Optional Retirement Plan. Employees will contribute at the same sliding scale rates as those in the defined benefit plan.

South Carolina. Act 278, Laws of 2012 (House Bill 4967), makes various changes affecting South Carolina Retirement System benefits for new general members and members of the Police Officers' Retirement System.

- *Vesting.* For new general and Police Officer members as of July 1, 2012, the vesting requirement will increase from five years to eight years for eligibility for service retirement benefits, disability benefits based upon non-work-related injuries, in-service death benefits, the ability to purchase non-qualified service credit (i.e., "air time").
- *Final Average Compensation*. For new general and Police Officer members as of that date, final average compensation will be based on the member's five highest years of earned compensation instead of the three highest years.

- *Retirement Eligibility*. Under existing law, general members may retire after 28 years of service to be eligible for full benefits and are eligible for reduced benefits at age 55 with at least 25 years of service. For new non-Police members as of July 1, 2012, full benefits will be available at age 65 with eight years of earned service credit or under the Rule of 90. Reduced benefits will be available at 60, with eight years of service. The benefit reduction will be 5% for each year the member is below the age of 65.
- Under existing law, Police Officer members may retire with full benefits after 25 years of service. New members' eligibility for full retirement benefits will be after 27 years of service or at age 55 with eight years of earned service credit.
- *Compensation Base for FAS*. Also for new general and Police Officer members, payments for up to 45 days of unused annual leave will no longer be to included in the calculation of final average salary (average final compensation) and no service credit will be awarded for unused days of sick leave (current law allows the use of up to 90 such days).
- For all members, including current and new members of the Police Officers' Retirement System, the legislation terminates the accrual of interest on inactive accounts as of July 1, 2012. Inactive members will retain interest credited to their accounts before that date.

Virginia. Act 702 of 2012 (HB 1130/Senate Bill 498) makes changes in existing defined benefit plans (Plan 1 and Plan 2) of the Virginia Retirement System and also establishes Plan 3, a hybrid plan applicable to most new state and local government employees hired on or after January 1, 2014. The hybrid plan is described in Part 5 of this report. The following summarizes changes affecting Plan 1 and Plan 2 members.

- *Final Average Compensation*. For Plan 1 members who are not vested as of January 1, 2013, final average compensation will be based on the average of the employee's highest consecutive 60 months instead of the highest consecutive 36 months. The changes applies to general state and local government employees, school division employees, state police, members of the Law Enforcement Officers' System, hazardous-duty employees and judges. This provision already applies to Plan 2 members.
- *Multiplier*. For the most of same categories of members, the multiplier for future service earned or granted on and after January 1, 2013, will be reduced from 1.7% to 1.65%. The reduction in the multiplier will not apply to state and local police or to hazardous duty employees.
- *Age of Retirement for Full Benefits*. For general state and local government employees and school division employees who are not vested on January 1, 2013, the age of retirement for full benefits will be normal Social Security age with at least five years of service credit or the Rule 0f 90. Early retirement with reduced benefits will be available at age 60 with at least five years of service credit. These provisions will not apply to state and local police or to hazardous duty employees, or to judges. These provisions already apply to Plan 2 members.
- *Cost*-of-*Living Adjustments.* Future COLAs will be capped at 3% for all non-vested Plan 1 members and all Plan 2 members, vested or non-vested, including all law enforcement, hazardous duty and judicial members. For all vested and non-vested Plan 1 and Plan 2 members who retire in the future under reduced-benefit provisions with less than 20 years of service credit, COLAs will go into effect on the July 1 that is at least one year after the date of the person's actual retirement. The latter provision will not affect members who will be within five years of eligibility for early retirement on January 1, 2013.

Washington. Chapter 7, Laws of 2012 (Senate Bill 6378), changes early retirement provisions for members of the Public Employees' Retirement System (PERS),the Teachers' Retirement System (TRS), which provides retirement benefits for certificated instructional staff of public schools, and the School Employees' Retirement System (SERS), which covers classified school employees. It affects members of Plans 2 and 3 of each of the three systems. In each system, Plan 2 is a defined benefit plan and Plan 3 is a hybrid plan with a DB and a defined contribution component. In each system, new members choose between the plans when they enter system membership. In each case, Plan 3 is the default applicable to those who do not make an explicit choice.

Plans 2 and 3 offer early retirement with an actuarially-reduced benefit to members who have 20 years of service but fewer than 30. This program is not affected by SB 6378.

An alternative early retirement option was enacted in 2000 for members who have 30 years of service but who have not reached the systems' normal retirement age of 65. The alternative plan reduced normal benefits by 3 percent for each year the retiree's age was short of 65. The alternative was made more attractive by 2007 legislation that allowed members with 30 years of service to retire at 62 without a benefit reduction, and somewhat reduced the reduction factors for other circumstances.

SB 6378 provides that those who establish membership in PERS, TRS and SERS after April 30, 2013, will be ineligible for the alternative early retirement options. Such members will be eligible for early retirement at age 55 with 30 years of service. The retirement allowance for such members will be reduced by 5 percent for each year of difference between the person's age at retirement and 65.

Wyoming. Chapter 108, Laws of 2012 (Senate Bill 97), increases age requirements and changes benefit provisions for normal and early retirement for members of the Wyoming Retirement System (WRS) whose service begins after August 31, 2012, as well as for previous members who return to covered service but who withdrew their contributions when they left covered service earlier, or who left with fewer than four years of service (certain exceptions apply).

- *Final average salary*. The calculation of final average salary will be based on the member's highest paid five years of continuous service (formerly, three highest continuous years);
- *Retirement eligibility.* Normal retirement eligibility will be at age 65 with four years of service (formerly 60/4) or in accord with the Rule of 85 as in existing law;
- Early retirement will be available at age 55 with four years of service or before age 55 with 25 years of service, in both cases with an actuarial reduction in benefits as set by the Board of the WRS (formerly, 50/4 or any age with 25 years of service and a 5% per year reduction);
- *Multipliers.* The multiplier for calculating benefits is set at 2% (formerly 2.125% for the first 15 years of service and 2.25% for additional years of service).
- The multiplier for firefighters will remain at 2.5% as in existing law.

5. Defined Contribution, Cash Balance and Hybrid Plans

Kansas. Chapter 171, Laws of 2012 (House Bill 2333), provides for a cash balance plan for new members of the Kansas Public Employee Retirement System beginning January 1, 2015.

Kansas Tier 3 Cash Balance Plan Design	
Who's included	New employees starting January 2015 Correctional Officers are not included, will be in KPERS tier 2

Employee contributions	6% Deposited in employee account
Employer pay credits	Employee earns pay credits quarterly based on years of service 1-4 yrs = 3% of compensation 5-11 yrs = 4% 12-23 yrs = 5% 24 yrs+ = 6%
Investments	KPERS board directs investments as part of the KPERS trust.
Interest	Annual 5.25% guaranteed interest on account balance (employee and employer amounts) Possible additional interest (0% to 4%) based on KPERS investment returns and funding
Vesting	5 years
Leaving employment before retirement	Employees can withdraw employee contributions, but forfeit employer credits. Vested members can leave employee contributions and receive a benefit at retirement age, including employer pay credits.
Retirement age	Unreduced benefits: 65/5 or 60/30 Early retirement, reduced benefit: 55/10
Retirement benefit	Guaranteed lifetime benefit with survivor options Annuity benefit based on account balance at retirement Partial-lump sum option up to 30% with full retirement (not available with early retirement) Can use part of account balance to fund a cost-of-living increase (COLA) $4,000 retiree death benefit

Louisiana. Act 483 of the 2012 Regular Session (House Bill 61), provides for a cash balance retirement plan for certain members of the Louisiana State Employees' Retirement System (LASERS), and all members of the Teachers Retirement System of Louisiana (TRSL) and the Louisiana School Employees' Retirement System (LSERS), whose first employment making them eligible for state system membership begins on or after July 1, 2013.

Louisiana Cash Balance Plan	
Who's included	Mandatory for members of LASERS other than those in positions of hazardous duty, and for post-secondary members of TRSL. All members of LSERS and primary and secondary school members of TRSL may make an irrevocable election to join the cash balance plan within 60 days of their initial employment.
Employee contributions	8% [LASERS and TRSL members are not covered by Social Security.]
Employer pay credits	Each account will receive a pay credit of 4% of the owner's salary annually as well as interest on the existing balance.
Investments	Managed by LASERS

Interest	Interest will be calculated monthly at a rate 100 basis points below the system's actuarial rate of return, presently calculated at 8%. The interest rate is guaranteed not to fall below zero.
Vesting in pay credits	Five years
Leaving employment before retirement	Members who withdraw from the plan with less than five years of service will receive a refund of member contributions without interest. Members who withdraw after five years of service are entitled to the balance of their account including the value of the pay credits and interest credits. The balance may be taken as a lump-sum payment, may be transferred to another qualified retirement plan or an individual retirement account, or may be left with the system to be annuitized when the member is 60. No additional interest will be credited to the account after the member leaves service.
Retirement age	Upon reaching age 60 active or inactive vested members with five years of service may convert the account balance to a variety of annuitized or cash benefits.
Retirement benefit	Lifetime annuity or to various options that will provide for a lump-sum withdrawal and a reduced annuity. The plan provides for survivor and disability benefits based upon the balance in a member account. In any event, benefits will not be less than the member's accumulated balance.

Two actuarial valuations of the legislation as submitted to the governor are available:
http://legis.la.gov/billdata/streamdocument.asp?did=808723
http://legis.la.gov/billdata/streamdocument.asp?did=795726

Michigan. Senate Bill 1040 (to governor August 15, 2012) offers new members of the Public School Employees' Retirement System as of September 4, 2012, the option of choosing between the existing DB/DC hybrid plan, enacted in 2010) and a defined contribution plan. The latter will provide employees a 50% match on employee contributions up to 6% of the employee's salary. The maximum employer match would be 3% of salary. Members will be automatically enrolled in the plan at the 6% contribution level, but may choose to contribute less or to make no contributions. There will be no employer contribution in the absence of employee contributions.

Tennessee. Chapter 939, Public Acts of 2012 (Senate Bill 3216), authorizes a number of new retirement plan options for new employees among which local governments may choose.

Currently the Tennessee Consolidated Retirement System sponsors a Political Subdivision Pension Plan within TCRS that is a defined benefit plan and is optional for local governments. Each local government participating in the plan is responsible for the liabilities of its employees and retirees. Local government employers may choose a noncontributory plan or a contributory plan with a 5% employee contribution requirement and an employer option of no COLA or a COLA capped at 3%. The state also permits local governments to participate in its supplemental defined contribution plans.

This legislation continues the availability of the plans described above, and adds the option of a 2.5% employee contribution requirement. This option will be applicable only to new hires.

This legislation adds two new optional plans applicable only to employees hired after the local government adopts the option. The legislation includes a provision that local governments may freeze, suspend or modify benefits, employee contributions, plan terms and design prospectively for employees hired after July 1, 2012. Such changes would not affect accrued benefits.

The new options are:

- A defined benefit plan with a lower annual multiplier than the current plan (1.4% vs. 1.575%), higher requirements for normal retirement (65 or Rule of 90 vs. 60 or 30 years of service), maintaining the same local options on COLAs and employee contributions as the existing defined benefit plan, with the addition of the option of a 2.5% employee contribution.
- A hybrid plan whose defined benefit component will have a multiplier of 1% and the same requirements for normal retirement as listed for the new DB plan above. Employers who choose this option must provide a qualified defined contribution plan, which they may obtain from the state or from any other source. The legislation recommends, but does not mandate, that local government sponsors require a combined employee-employer contribution of at least 5% of salary to the DC component of the hybrid.

Complete details are available at http://treasury.tn.gov/tcrs/index.html

Nebraska. Legislative Bill 916, (approved by the governor April 6, 2012) establishes a new period in which members of the Nebraska State and County Defined Contribution retirement plans may elect to participate in the Cash Balance plan. Individuals already participating in Cash Balance are not affected by this legislation.

- Defined Contribution members may make a one-time, irrevocable election to transfer to the Cash Balance plan during the election period beginning September 1, 2012, and ending October 31, 2012.
- Only members who are actively employed and contributing to the plan on October 31st will be eligible to transfer.

Virginia. Act 702 of 2012 (HB 1130/Senate Bill 498) creates a new hybrid retirement plan including defined benefit and defined contribution components. As of January 1, 2014, all new state general employees, teachers, general local employees and judges will be required to enroll in the hybrid plan. Act 702 does not affect members of the State Police Officers' Retirement System, the Virginia Law Officers' Retirement System, or political subdivision employees who have enhanced hazardous duty coverage.

Employees in service on December 31, 2013, will be given until April 30, 2014 to exercise the one-time option of an irrevocable transfer to the new plan. For such members, previously-earned benefits will be frozen according to plan provisions for them effective at the time of transfer.

The legislation also makes changes to the existing defined benefit plan that are discussed in other sections of this report.

- Each member of the hybrid plan will be required to make contributions to both the DB and DC component. The employee contribution to the DB component will be 4%. The mandatory employee contribution to the DC component will be 1%, and employees may contribute up to 5% of salary to earn a partial employer match. The latter will be capped at 3.5% of employee compensation. Details are provided in Part 1 of this report.

- No loans or hardship withdrawals from the member account will be permitted.
- The DB component of the plan will have a 1% multiplier.
- For the DB component, the vesting, age and service requirements for normal and early retirement and calculation of average final compensation are the same as for Plan 2 DB members. Vesting is at five years; normal retirement is at a person's Social Security age with five years of service or at the Rule of 90. Early retirement is available at the age of 60 with five years of service. Average final compensation is the average of the highest 60 months.
- For the DB component, cost of living adjustments will be capped at 3% with the other provisions described in Part 2 of this report.

6. Divestiture

Arizona. Chapter 63, Laws of 2012,(Senate Bill 1115), stipulates that loans, guarantees, investment management agreements and investment contracts made by Public Safety Personnel Retirement System receive due diligence regarding the Arizona Sudan Act, the Arizona Iran Act, federal immigration law and state e-verify requirements prior to their approval.

[The Arizona Sudan Divestment and Accountability Act of 2007 authorizes state and local governments to divest from companies that support the Sudanese government in response to genocide occurring in the Darfur region of Sudan. Following the federal divestment act, Arizona enacted statutes requiring the State Treasurer and all four of Arizona's retirement systems to divest from companies supporting Sudan as well as Iran.]

Connecticut. Public Act 203 of 2012 (Senate Bill 285), gives the state treasurer greater discretion in divesting investments in companies located in Northern Ireland that have not implemented the MacBride Principles. Currently, state statute requires mandatory divestment. Allowing the State Treasurer the discretion to determine whether or not divestment is warranted on a case-by-case basis will bring the MacBride statute in line with the state's divestment policies on Sudan and Iran. The bill calls for the statute to be repealed automatically on January 1, 2020, unless it is extended by the legislature.

New York. Chapter 1, Laws of 2012 (Assembly Bill 8668), enacts the Iran Divestment Act of 2012 to prevent public investment in companies operating in Iran's energy sector with investments that have the result of directly or indirectly supporting the efforts of the Government of Iran to achieve nuclear weapons capability.

Oregon. Chapter 72, Laws of 2012 (House Bill 4110), directs the Oregon Investment Council and State Treasurer to try to ensure that the Public Employees Retirement Fund is not invested in companies with an interest in the energy sector of Iran. The bill directs the State Treasurer to adopt an engagement policy with private investment fund managers and to encourage managers to end investments in companies with an interest in the energy sector of Iran.

7. Elected Officials' Retirement Programs.

Georgia. Act 646 of 2012 (House Bill 183), changes provisions for newly-elected legislators' membership of the Legislative Retirement System, from automatic enrollment with a provision that a member may withdraw to a requirement that each member elected after July 1, 2012 explicitly choose whether to be enrolled within two months of his or her election. Thereafter, returning members will preserve their previous status. It appears from the legislation that a choice once made is irrevocable, though that is not explicit. Legislative service may not be used for credit in any other retirement system.

The legislation also removes the eligibility for membership in the Legislative Retirement System of the Secretary of the Senate, the Clerk of the House, and the messengers and doorkeepers of the two chambers.

Kansas. Chapter 171, Laws of 2012 (House Bill 2333), removes an anomaly in existing law that provided that legislators' compensation and the basis of calculation for retirement benefits were based on a year of 372 days. The year has been changed to 365 days.

New Mexico. Chapter 61, Laws of 2012 (House Bill 42), increases the annual required member contribution for the Legislative Retirement Fund to $600 from $500. The legislative fiscal agency notes:

> State Legislator Member Coverage Plan 2 is unlike other Public Employee Retirement Association plans in that it is not funded with contributions from salary. Legislators are not salaried employees and their "retirement benefits" do not derive from employment. Plan 2 members are required to pay annual contributions of $500 per year of service. This contribution rate is not calculated actuarially. The state contributes the amount sufficient to finance the benefits provided to legislators under Plan 2 on an actuarial reserve basis. See, NMSA 1978, Section 10-11-43. The legislature transfers $2.4 million annually, which applies to both the normal costs associated with State Legislator Member Coverage Plans 1 and 2 and their respective unfunded actuarial accrued liability ("UAAL").
>
> The Legislative Retirement Fund is currently funded at 89.2% as of June 30, 2011. If the legislature's annual contribution to the fund remains at $2.4 million, the existing unfunded liability of $2.8 million for the Legislative Retirement Fund is expected to be paid off in 1-2 years, in the absence of future gains and losses. Since the state contributes the amount sufficient to finance the benefits provided to legislators under Plan 2 on an actuarial reserve basis, an increase in the Plan 2 annual contribution rate is not actuarially required. However, additional contributions are always a gain to the Fund.
>
> [The plan also covers the lieutenant governor.]

Oklahoma. Chapter 109, Laws of 2012 (HB 2322), permits elected officials to participate in the Oklahoma Public Employees' Retirement System's "Step Up" program available to other OPERS members. The Step Up allows members to increase their retirement calculation multiplier from 2.0% to 2.5%, by paying an additional member contribution. The additional contribution is set at a level that equals the actuarial cost of the increased benefits. For this reason HB 2322 is expected to have no actuarial impact on the system.

South Carolina. Act 278, Laws of 2012 (House Bill 4967), closes the General Assembly Retirement Plan to those newly elected to the General Assembly in or after November 2012. New legislators must choose between membership in the South Carolina Retirement System or the State Optional Retirement Plan, a defined contribution plan.

Current members of the General Assembly plan will be subject to a member contribution increase from 10% to 11% of compensation as of January 1, 2013. No other changes will affect current members except a provision that the purchase of air time will be at an actuarially determined cost as of January 2, 2013.

Utah. Chapter 376, Laws of 2012 (Senate Bill 156), eliminates retiree health benefits for any governor or legislator first elected to office after January 1, 2012 and provides for OPEB funding for those who remain eligible.

8. Ethics, Forfeiture of Benefits, Privacy

Alabama. Act 412 of 2012 **(**Senate Bill 213) provides that any person who is a member of the Employees' Retirement System, the Teachers' Retirement System, or the Judicial Retirement Fund, either an active or inactive member who has an accrued retirement benefit or a retired member, shall forfeit the employer-paid portion and the interest or gains on the employer-paid portion of his or her retirement benefits upon a guilty plea, a plea of no contest, or a final conviction of a felony offense related to the person's performance.

Kentucky. Act 75 of 2012 (House Bill 300) requires the Kentucky Teachers' Retirement System board of trustees to be subject to the executive branch code of ethics; requires placement agents who are involved with Kentucky Retirement Systems and Kentucky Teachers' Retirement System investments to register as lobbyists and to define placement agents and unregulated placement agents; exempts placement agents from the contingent fee prohibition in the Executive Branch Code of Ethics; provides for public disclosure of expenditures.

Louisiana. Chapter 868, Laws of 2012 **(**House Bill 9), submits a constitutional amendment to the voters that would authorize the legislature to provide for the forfeiture of retirement benefits by public officials and employees who are convicted of felonious acts associated with their employment. The amendment would not, in itself, provide for such forfeiture. The vote will occur in 2012.

Chapter 479, Laws of 2012 (House Bill 10), will implement the provisions of the proposed constitutional amendment if it is approved by the voters. The legislation will require the forfeiture of benefits earned on or after January 1, 2013 if a public employee or official is convicted of a state or federal felony associated with his or her employment or office. The following conditions must be satisfied for forfeiture to occur:

- The member must have been first employed or reemployed on or after January 1, 2013.
- The member commits a “public corruption crime” on or after January 1, 2013 and is convicted of that crime.
- The court determines that forfeiture is appropriate.

Nebraska. Legislative Bill 916, (approved by the governor April 6, 2012) provides in connections with Nebraska retirement plans that “If an employee or appointee who is a member of the retirement system is convicted of or pleads no contest to a felony that is defined as assault, sexual assault, kidnapping, child abuse, false imprisonment, or theft by embezzlement and is found liable for civil damages as a result of such felony, following distribution of the employee's or appointee's benefits or annuities from the retirement plan, the court may order the payment of the employee's or appointee's benefits or annuities under the retirement plan for such civil damages, except that the benefits or annuities to the extent reasonably necessary for the support of the employee or appointee or any of his or her beneficiaries shall be exempt from such payment. Any order for payment of benefits or annuities shall not be stayed on the filing of any appeal of the conviction. If the conviction is reversed on final judgment, all benefits or annuities paid as civil damages shall be forfeited and returned to the employee or appointee. The changes made to this section by this legislative bill shall apply to persons convicted of or who have pled no contest to such a felony and who have been found liable for civil damages as a result of such felony prior to, on, or after the effective date of this act."

North Carolina. Session Law 193 of 2012 **(**House Bill 153) prohibits a person who has been convicted of a felony related to employment or holding office from receiving benefits from the Teachers' and State Employees' Retirement System, the local governmental employees' retirement system, the consolidated judicial retirement system, the legislative retirement system, the retirement programs for the University of North Carolina or state-funded community colleges, or the retirement income plans for law enforcement officers.

Oklahoma. Chapter 46, Laws of 2012 (House Bill 2623) relates to the Teachers' Retirement System; provides that members who have final felony convictions forfeit retirement benefits; delays benefits until completion of deferred sentence; provides that members who have left active contributory service and who have certain final felony convictions forfeit retirement benefits; provides for rejection of claims; provides that suspension or forfeiture continues until conviction or plea is reversed; provides procedure for investigation and suspension of benefits.

9. Governance and Investment Policy.

Colorado. Chapter 227, Laws of 2012 (Senate Bill 149), authorizes the board of a defined benefit plan or system created by a local government to modify the benefits, and the age and service requirements for the plan, when the board determines the modification is necessary to ensure the plan's sustainability. Any modifications shall not adversely affect vested benefits already accrued by members of defined benefit plans, including members who are retired or eligible to retire as of the effective date of the modifications, unless otherwise permitted under, or required by, Colorado or federal law.

Boards of defined benefit plans affected by the bill may provide written notice to each member, inactive member, and beneficiary that the possibility of a reduction of benefits to ensure the sustainability of the plan could occur in the future.

No plan changes are mandated by the bill. The DB plans of Adams, Arapahoe, El Paso, Pueblo and Weld Counties have been identified as being governed by the authority described in the bill.

Georgia. Act 603 of 2012 (Senate Bill 402) authorizes Georgia retirement plans to invest in alternative investments as defined in the legislation.

Act 650 of 2012 (House Bill 297) prohibits public retirement systems in Georgia from purchasing so-called "dead peasants' insurance." The bill says, "No public retirement system in this state shall have an insurable interest in active or retired members of such retirement system. No public retirement system shall have the authority to expend or obligate funds under the control of such retirement system to purchase life insurance on its members except where all benefits are paid to a member's estate or to a beneficiary designated by the individual member."

Kentucky. Act 75 of 2012 (House Bill 300) requires the Kentucky Teachers' Retirement System board of trustees to be subject to the executive branch code of ethics; requires placement agents who are involved with Kentucky Retirement Systems and Kentucky Teachers' Retirement System investments to register as lobbyists and to define placement agents and unregulated placement agents; exempts placement agents from the contingent fee prohibition in the Executive Branch Code of Ethics; provides for public disclosure of expenditures.

Illinois. Public Act 694 of 2012 (Senate Bill 179) directs the Illinois Auditor General to contract with or hire an actuary to serve as State Actuary, whose responsibilities will be to:

- Review assumptions and valuations prepared by actuaries retained by the boards of trustees of the state-funded retirement systems;
- Issue preliminary reports to the boards of trustees of the State-funded retirement systems concerning proposed certifications of required state contributions submitted to the state actuary by those boards;
- Cooperate with the boards of trustees of the state-funded retirement systems to identify recommended changes in actuarial assumptions that the boards must consider before finalizing their certifications of the required State contributions;
- Conduct reviews of the actuarial practices of the boards of trustees of the State-funded retirement systems;
- Annually submit a written report to the General Assembly and Governor documenting the initial assumptions and valuations prepared by actuaries retained by the boards of trustees of the state-funded retirement systems, any changes recommended by the state actuary in the actuarial assumptions, and the responses of each board to the state actuary's recommendations.

Indiana. Public Law 138 of 2012 (House Bill 1123) provides that not later than December 1 each year, the office of management and budget shall submit to the state budget committee the following: (1) A report prepared by the office of management and budget concerning post-employment benefits and liabilities of state agencies. (2) Reports prepared by state educational institutions concerning post-employment benefits and liabilities of those institutions.

Kansas. Chapter 96, Laws of 2012 (House Bill 2461), raises the cap on alternative investments for the Kansas Public Employees' Retirement System to not more than 15%.

Maryland. Chapters 561 and 562, Laws of 2012 (House Bill 806 and Senate Bill 672, companion bills), give the Board of Trustees of the State Pension and Retirement System independent authority to determine the qualifications and compensation for the deputy chief investment officer and managing director positions within the State Retirement Agency's Investment Division, subject to specified limitations. Any salary increase for either position may not be greater than 10% of the lowest salary for the position in the prior fiscal year. The board may not provide a bonus to an employee in a position covered by the bills.

Minnesota. Chapter 286, Laws of 2012 (Senate Bill 1808), changes future investment return assumptions for the all statewide and major local Minnesota public retirement plans. The legislation temporarily lowers the rate of return assumptions. The pre-retirement rate of return assumption will be 8.0 percent rather than 8.5 percent through June 30, 2017, and the post-retirement assumption will be 5.5 percent rather an 6.0 percent through that date.

Oklahoma. Chapter 109, Laws of 2012 (House Bill 2322), removes a statutory requirement that the Oklahoma Public Employees Retirement System (OPERS) include an estimate of the actuarial impact of potential future cost-of-living increases in its annual actuarial studies. This conforms with language enacted in Senate Bill 794 of 2011. The removal of the actuarial cost of potential COLAs has had a substantial effect in reducing the OPERS UAAL. COLAs in Oklahoma are not automatic, but are periodically enacted.

South Carolina. Act 278, Laws of 2012 (House Bill 4967), provides that in the future the General Assembly will set the assumed rate of return on the investments of state retirement plans. The initial rate is set at 7.5%.

Because of the proposed repeal of the South Carolina Budget and Control Board, which has been the governing body of South Carolina Retirement plans, this legislation creates the Public Employee Benefit Authority to administer state retirement systems and programs and the state deferred compensation plan.

The governor will appoint three of the Authority's members and General Assembly officers will appoint the other eight. The members will include four active or retired public employees and teachers. The other seven members must meet certain professional qualifications that include (as alternatives) experience in finance, insurance, accounting, or law, or have 12 years experience in public employment and a degree from an accredited institution.

Tennessee. Chapter 941, Laws of 2012 (Senate Bill 3262), provides for retirement system investments. It provides that private equity investments may include strategic lending, international venture capital, corporate buyouts, mezzanine and distressed debt and secondary funds; provides that private equity investment vehicles may include limited partnerships, private placements, co-investments, funds-of-funds and commingled funds; and prohibits any investment that would cause the aggregate book value to exceed the market value of the total assets of the retirement system.

Washington. Chapter 7, Laws of 2012 (Senate Bill 6378), amends the assumed rate of return on pension fund investments for the purpose of calculating retirement system contribution rates. The rate will be changed from the current 8% to 7.9% on July 1, 2013, to 7.8% on July 1, 2015, and to 7.7% on July 1, 2017. By June 1, 2017, the State Actuary must submit a report to the Pension Funding Council describing the financial condition of the state retirement systems and recommending a long-term investment return assumption.

The changes affect the Public Employees' Retirement System (PERS),the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS).

10. Legislative Process

Kansas. Chapter 171, Laws of 2012 (House Bill 2333), requires that bills that would provide new or increased retirement benefits, including post-retirement benefit increases, must include an actuarial valuation, appraisal of liability and estimated contribution changes. The actuary of the Kansas Public Employee Retirement System (KPERS) must provide the information. The fiscal note must be available before a standing committee may consider such a bill. The actuarial note is to be provided to KPERS and the Joint Committee on Pensions, Investments and Benefits.

Louisiana. Act 224 of 2012 (Senate Bill 2) provides that as ex officio members of each of the state and statewide retirement system boards, the chairman of the House Committee on Retirement and the chairman of the Senate Committee on Retirement may each independently authorize legislative staff to attend any executive session of any board meeting or committee meeting of any state or statewide retirement system board or committee. The legislative staff who attend under this act will not be permitted to vote.

Louisiana. Act 872 of 2012 (Senate Bill 21) proposes a constitutional amendment that would require that any proposed legislation regarding public retirement systems must be prefiled 45 days before the first day of a regular legislative session. The state constitution requires that all legislation be prefiled no less than 10 days before the beginning of a session. This amendment would make an exception for legislation on public retirement plans in the interest of providing more time for legislators and staff to draft, analyze and consider such legislation.

11. Military Service Credit

Maryland. Chapter 646, Laws of 2012 (House Bill 19), expands eligibility for State Retirement and Pension System (SPRS) members who are members of a reserve component of the U.S. Armed Forces to earn military service credit currently available only to members of the Maryland National Guard. Specifically, the bill allows reservists to earn four months of additional service credit for every year of active service or inactive training duty in the reserves that interrupts employment. It also allows SRPS members with at least 10 years of service credit to earn four months of service credit for every year of duty in the reserves that occurred prior to membership, up to three years of credit. The bill does not apply to members of the Legislative Pension Plan.

12. OPEB Issues

Hawaii. Act 304 of 2012 (Senate Bill 2753) authorizes the board of the Employer-Union Health Benefits Trust Fund to create a trust fund to receive employer contributions that will prefund post-employment health and other benefit costs for retirees and their beneficiaries.

Illinois. Public Act 695 of 2012 (Senate Bill 1313) grants the Director of Central Management Services (CMS) the power to adopt emergency rules to alter the contributions for retiree health insurance to be paid by the state, annuitants, survivors, retired employees, or any combination of those entities. The legislation provides that contributions required of annuitants, survivors, and retired employees shall be the same for all retirement systems and shall also be based on whether an individual has made an election under a specific provision of the State Universities Article of the Illinois Pension Code. The legislation specifies that contributions may be based on annuitants', survivors', or retired employees' Medicare eligibility, but may not be based on Social Security eligibility. It will take effect on July 1, 2012.

According to Representative Sandy Cole, the bill addresses the following issue:

Currently, there are 78,000 retirees who pay no premium for healthcare. Another 7,400 pay a portion of their premium and 36,000 dependents are enrolled but whose premium does not cover the true cost of the healthcare benefit. This bill does not affect public school teachers or community college employees who already contribute premiums to the Teachers' Retirement Insurance Program (TRIP) or the College Insurance Program (CIP).

The change puts in place a mechanism that allows the Director of CMS to determine the State's premium payments on behalf of retired employees – including lawmakers and judges. CMS has proposed guidelines for determining what retirees' contributions will be based upon a sliding scale that takes into account length of service and ability to pay. The percent of cost the retiree will pay will also be based on his or her pension level.

If the remaining payment determined for retirees is deemed unacceptable, the Joint Commission on Administrative Rules (JCAR) may object. In addition, the suggested retiree contributions will be subject to union negotiations.

Indiana. Public Law 138 of 2012 (House Bill 1123) permits the creation of trust funds to prefund OPEB liabilities.

Michigan. Senate Bill 1040 (to the governor August 15, 2012) makes a number of changes regarding retiree health provisions for members of the Public School Employees' Retirement System. The legislation:

- Increases the retiree health insurance premium contribution of both existing and future retires to at least 20%, capping the retirement system's premium share at 80% beginning January 1, 2013. For retirees who are receiving a benefit and who are age 65 or older on January 1, 2013, the cap on the maximum employer contribution for medical, dental, and vision benefits would be 90%.
- Eliminates retiree health insurance for employees hired on or after September 4, 2012, and replaces it with a 401(k) or 457 plan with an employer match of up to 2% of compensation plus a lump sum deposit of either $1,000 or $2,000 into a Health Reimbursement Account (HRA) upon termination of employment.
- Continues the 3% employee contribution for retiree health but guarantees and employee's individual contributions. Uses the 3% contributions toward prefunding future retiree health benefits. Allows existing employees to opt out of retiree health insurance and instead choose the 2% matching contribution into a DC plan in lieu of retiree health benefits.
- Shifts from paying for retiree health care benefits on a pay-as-you-go method to prefunding with a combination of employee contributions, employer contributions, and state funding. (If the employee 3% contributions were ruled unconstitutional, the method would revert to a cash basis.)

New Hampshire. Chapter 175, Laws of 2012 (House Bill 1521), makes changes in health insurance provisions for retired public employees. The legislation eliminates a retired employee's option to elect health benefits for a non-spouse beneficiary, an option that according to the Department of Administration has in the past attracted few people.

The second change affects the provisions that allow retirees to enroll eligible dependents in the state employee group insurance, at full premium cost, if the retiree's monthly pension benefit from the New Hampshire Retirement System is sufficient to cover all monthly health coverage premium costs. This legislation removes the requirement that the monthly benefit imposes on enrollment of dependents, which the Department of Administration states could result in many more participants in the state employee group insurance plan. The retiree would still be liable for the full monthly premium.

Third, the legislation establishes a time limit for retirees to provide verification of eligibility for health benefits, and a penalty for failure to update the state in the event of a change in eligibility status and implementation of these requirements, which could result in certain retirees losing eligibility for state paid health benefits.

West Virginia. Chapter 152, Laws of 2012 (Senate Bill 469), dedicates $30 million annually to the West Virginia Retiree Health Benefit Trust Fund to pay off the state's $5 billion other post-employment benefits (OPEB) debt by 2036. Another $5 million annually would be transferred into a trust fund for public workers hired after July 1, 2010.

The $35 million would come from personal income tax revenue currently being used to pay of the Workers' Compensation Old Fund, which should be available by 2016 when the state retires the debt. The bill also provides relief for county school systems, with the state taking responsibility for retiree health care costs within the school aid formula, though schools would have to take responsibility for amounts billed outside the school aid formula.

13. Purchase of Service Credit

South Carolina. Act 278, Laws of 2012 (House Bill 4967), changes the cost of purchasing service credit for current and new members of the South Carolina Retirement System, the General Assembly Retirement System and the Police Officers' Retirement System, as of July 1, 2012. The former provisions allowed the purchase of service at 16% of a person's highest salary for qualified time and 35% for non-qualified time. This legislation sets those amounts as minimum charges and provides for an actuarial calculation of the purchase cost.

The service purchase provisions apply to military service but not to purchases of leaves of absence, workers' compensation, or previously withdrawn service.

[The member's handbook explains: Active members may establish additional service credit for various types of previous employment and leaves of absence, and up to five years of non-qualified service.

14. Re-employment after Retirement

Kansas. Chapter 171, Laws of 2012 (House Bill 2333), extends for three years to July 1, 2015, a salary cap exemption for public school professionals who go back to work after retiring from the Kansas Public Employee Retirement System and who are employed full time by the same KPERS participating employer. The latter will continue to pay a special KPERS contribution rate for retired members who return to work.

Maryland. Chapters 469 and 470, Laws of 2012 (Senate Bill 250 and House Bill 84, companion bills), reduce from nine to five the number of years that a Correctional Officers' Retirement System (CORS) and State Police Retirement System (SPRS) retiree must wait in order to be exempt from a reemployment earnings limitation. Chapters 526 and 527 (Senate Bill 497 and House Bill 630, companion bills), exempt Employee Retirement System and Employee Pension System retirees from the earnings limitation if they are reemployed as contractual parole and probation officers for up to four years.

South Carolina. Act 278, Laws of 2012 (House Bill 4967), places a limit on the amount that can be earned when a retiree from the South Carolina Retirement System returns to covered service, affecting those who retire on or after January 2, 2012. Current law does not limit earnings of a returning retiree. This law requires an absence from employment of 30 days and suspends retirement benefits after the returning retiree has earned $10,000. Retirees will be able to repeat the process yearly.

The limitation will not apply to people who are at least 62 years old when they retire, or those returning to specified elective or appointive positions.

Similar provisions will apply to members of the Police Officers' Retirement System, except that people who are at least 57 years old when they retire will not be subject to the limit on earnings.

15. Studies

Hawaii. Act 16 of 2012 (House Bill 1858) requires the director of human resource development to compile an executive branch workforce demographic profile to include both civil service and exempt employees including the number of employees who are currently eligible for retirement and the projected retirements.

Kentucky. Act 155 of 2012 (HCR 162) establishes the Kentucky Public Pensions Task Force to study issues regarding Kentucky's state-administered pension funds and to develop consensus recommendations concerning the benefits, investments, and funding of those funds. It is to report to the General Assembly by December 7, 2012.

Maryland. Chapter 578, Laws of 2012 **(**House Bill 916), requires the Governor's Office of Minority Affairs to conduct a study of the State Retirement and Pension System and all funds managed by the Board of Trustees for the System to determine the capacity to select minority fund managers across all asset classes and to determine methods that best assure the recruitment and selection of minority companies for fund-to-fund management or direct management by the Investment Division of the State Retirement Agency.

Michigan. Senate Bill 1040 (to the governor August 15, 2012 requires the Director of the Department of Management, Budget, and Technology (DTMB), with the Senate Majority Leader and the Speaker of the House of Representatives, to commission an independent third party to prepare a report by November 15, 2012. The report would provide recommendations regarding the following:

- Defined contribution, hybrid defined contribution and other plan options including the additional costs related to implementing a 401(k) plan identical to the one offered to state employees (which provides an automatic match equal to 4% of salary with an additional match of up to 3% based on employee contributions).
- Plan design, funding methods, benefits provided, and other features of other public state school employee plans and private retirement plans covering comparable employees.
- Funding or not funding the annual required contributions for unfunded liabilities.
- Changing member contributions, vesting requirements, service credit purchases, pension formulas, cost of living increases, rates of investment returns, mortality rates, and longevity.
- Prefunding retire health care costs rather than paying on a cash basis.

- The degree to which current operating expenditures (COE) are a stable, growing, and equitable base for charging unfunded accrued liabilities as compared to payroll or alternative methods.

South Dakota. Chapter 27, Laws of 2012 **(**Senate Bill 30), authorizes the Board of Trustees to establish an alternative benefit enhancement methodology to make SDRS more sustainable while mitigating risk to the system, subject to approval by the legislature.

The South Dakota Retirement System explains:

> Considering the volatility of the capital markets, the SDRS Board of Trustees is focusing on ways to make SDRS more sustainable over the long-term and better balance risks in the plan. This enabling legislation would provide the authority to the Board of Trustees to explore and design alternative benefit enhancement methods. SDRS already has several hybrid features within the plan and this legislation would give SDRS more alternatives for benefit enhancements in the future. While the details are not fully defined yet, this legislation would allow SDRS to explore the possibility of providing both formula based benefits and account based benefits under the total SDRS umbrella. Such a design would grow additional benefits when the market moves up, but would also mitigate risk by contracting when markets fall. In short, this will add another benefit enhancement alternative for the Board of Trustees to consider in the future.

Washington. Chapter 7, Laws of 2012 (Senate Bill 6378), directs the Select Committee on Pension Policy and the Department of Labor and Industries to study the range of job classifications covered by the state retirement systems to identify positions that entail high levels of physical or psychological risk. The SCPP, with the assistance of the Office of the Superintendent of Public Instruction, must also study the job requirements for classroom employees that may limit the effectiveness of older employees. No later than December 15, 2012, the SCPP must submit a report to the fiscal committees of the Legislature evaluating the appropriateness of enrolling certain employee groups in the Public Safety Employees' Retirement System (PSERS) and the creation of other early retirement options within the Teachers' Retirement System.

The legislation also directs the State Actuary to submit a report to the Pension Funding Council by June 1, 2017, describing the financial condition of the state retirement systems and recommending a long-term investment return assumption.

16. Voluntary Plans

Massachusetts. Chapter 60, Acts of 2012 (House Bill 3754) , will allow non-profit organizations with fewer than 20 employees to enter into a contributory retirement plan.
No state money will be used to fund the retirement plan, which will be overseen by the Treasurer's Office. Currently, the Treasurer's Office oversees a contributory plan with $5 billion in assets that includes approximately 300,000 members. Adding the plan for non-profit organizations will not have a significant impact on operations.

To establish the plan, the Treasurer's Office may create a trust to receive qualified contributions from non-profit employers and employees, and will establish a non-profit defined contribution committee that will include the Treasurer and four other members. The legislation was supported by the Massachusetts Nonprofit Network and is considered one of the first of its kind in the nation.

PROPOSED AMENDMENTS TO BILL NO. 13.0099.02000

Page 5, line 10, after "or" insert "termination of employment, or"

Page 5, line 12, after "year" insert "employment terminated or"

Renumber accordingly

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
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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
JUNE 28, 2012 BOARD MEETING

BOARD MEMBERS PRESENT VIA CONFERENCE CALL:	Drew Wrigley, Lt. Governor, Chair Mike Sandal, PERS Board Lance Gaebe, Land Commissioner Kelly Schmidt, State Treasurer Bob Toso, TFFR Board
STAFF PRESENT:	Bonnie Heit, Office Manager
OTHERS:	Tricia Opp, Procurement Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) Search Committee meeting to order at 4:00 p.m. on Thursday, June 28, 2012.

The SIB Search Committee meeting was held for the purposes of conducting preliminary discussions on the replacement process of the Executive Director/CIO of the Retirement and Investment Office (RIO).

RIO staff had requested the Search Committee provide them with a compensation figure for the new Executive Director/CIO for planning purposes of RIO’s 2013-15 budget. For budgeting purposes only, the Search Committee recommended an annual salary of $220,000 with a 10% increase for the second year. The final salary of the new Executive Director/CIO will be based on experience and assets managed.

The Search Committee discussed the RFP process for hiring a headhunting firm. The previous RFP that was issued on May 11, 2010, by State Procurement, will need to be updated by the Search Committee and State Procurement. The RFP will be updated and written to reflect what services the Search Committee would like the headhunting firm to provide to them. The previous RFP will be distributed to the Search Committee for their initial input. Mr. Sandal and Treasurer Schmidt will work with Ms. Opp and State Procurement to revise and prepare the RFP. The full Search Committee will review the revised RFP before the final is issued.

The Search Committee discussed the timeframe for hiring the Executive Director/CIO. If the structure of RIO stays as it currently is, the process will move along quickly. If it is decided that changes to RIO’s structure are needed, those changes will need to be determined during the next Legislative session. Legislative action will need to take place and be finalized before the hiring process can take place.

To assist the Search Committee, a letter will be distributed to the clients of the SIB. Lt. Governor Wrigley as Chair of the SIB, will compose a letter to inform the SIB clients that interim leadership has been appointed for RIO and that the SIB, as administrative board to RIO, is taking the time to study and look at the structure of RIO to determine if changes are warranted and that their input is welcomed. Lt. Governor Wrigley will provide a draft of the letter to the Search Committee before it is distributed the week of July 9, 2012.

The Search Committee’s next meeting will be held late July or early August to allow the SIB clients time to provide their input. The Search Committee will base their next steps on the input they receive back from the SIB clients.

ADJOURNMENT:

With no further issues needing to be discussed, Lt. Governor Wrigley adjourned the meeting at 4:45 p.m.

Respectfully Submitted:

____

Lt. Governor Wrigley, Chair
State Investment Board

____

Bonnie Heit
Assistant to the Board

CHAPTER 54-52.5
STATE RETIREMENT AND INVESTMENT OFFICE

54-52.5-01. North Dakota state retirement and investment office.
The state retirement and investment office is created to coordinate the activities of the state investment board and teachers' fund for retirement.

54-52.5-02. Governing authority.
The state investment board shall govern the state retirement and investment office. The state investment board is responsible for overseeing and operating the agency and may do all things necessary to coordinate the activities of the state investment board and the teachers' fund for retirement. The board of trustees of the teachers' fund for retirement and the state investment board shall maintain their legal identities and authority as otherwise provided by law.

54-52.5-03. State retirement and investment fund - Cost of operation of agency.
A special fund known as the "state retirement and investment fund" is established for the purpose of defraying administrative expenses of the state retirement and investment office. The actual amount of administrative expenses incurred by the state retirement and investment office must be paid from the respective funds listed under section 21-10-06 and are hereby appropriated to the state retirement and investment fund in proportion to the services rendered for each fund as estimated by the state investment board. The amount necessary to pay all administrative expenses of the state retirement and investment office must be paid from the state retirement and investment fund in accordance with the agency's appropriation authority. Any interest income earned on the state retirement and investment fund must be credited to the fund.

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

CHAPTER 21-10
STATE INVESTMENT BOARD

21-10-01. State investment board - Membership - Term - Compensation - Advisory council.

1. The North Dakota state investment board consists of the governor, the state treasurer, the commissioner of university and school lands, the director of workforce safety and insurance, the insurance commissioner, three members of the teachers' fund for retirement board or the board's designees who need not be members of the fund as selected by that board, two of the elected members of the public employees retirement system board as selected by that board, and one member of the public employees retirement system board as selected by that board. The director of workforce safety and insurance may appoint a designee, subject to approval by the workforce safety and insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend. The teachers' fund for retirement board may appoint an alternate designee with full voting privileges to attend meetings of the state investment board when a selected member is unable to attend. The public employees retirement system board may appoint an alternate designee with full voting privileges from the public employees retirement system board to attend meetings of the state investment board when a selected member is unable to attend. The members of the state investment board, except elected and appointed officials and the director of workforce safety and insurance or the director's designee, are entitled to receive as compensation one hundred forty-eight dollars per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the state investment board.
2. The state investment board may establish an advisory council composed of individuals who are experienced and knowledgeable in the field of investments. The state investment board shall determine the responsibilities of the advisory council. Members of the advisory council are entitled to receive the same compensation as provided the members of the advisory board of the Bank of North Dakota and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09.

21-10-02. Board - Powers and duties.

The board is charged with the investment of the funds enumerated in section 21-10-06. It shall approve general types of securities for investment by these funds and set policies and procedures regulating securities transactions on behalf of the various funds. Representatives of the funds enumerated in section 21-10-06 may make recommendations to the board in regard to investments. The board or its designated agents must be custodian of securities purchased on behalf of funds under the management of the board. The board may appoint an investment director or advisory service, or both, who must be experienced in, and hold considerable knowledge of, the field of investments. The investment director or advisory service shall serve at the pleasure of the board. The investment director or advisory service may be an individual, corporation, limited liability company, partnership, or any legal entity which meets the qualifications established herein. The board may authorize the investment director to lend securities held by the funds. These securities must be collateralized as directed by the board. The board may create investment fund pools in which the funds identified in section 21-10-06 may invest.

21-10-02.1. Board - Policies on investment goals and objectives and asset allocation.

1. The governing body of each fund enumerated in section 21-10-06 shall establish policies on investment goals and objectives and asset allocation for each respective fund. The policies must provide for:
   a. The definition and assignment of duties and responsibilities to advisory services and persons employed by the board.
   b. Acceptable rates of return, liquidity, and levels of risk.

c. Long-range asset allocation goals.
d. Guidelines for the selection and redemption of investments.
e. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services.
f. The type of reports and procedures to be used in evaluating performance.

2. The asset allocation for each fund, to be effective, must be approved by the governing body of that fund and the state investment board by January first of each year. If the asset allocation is not approved, the previous asset allocation remains effective. The governing body of each fund shall use the staff and consultants of the retirement and investment office in developing asset allocation and investment policies.

21-10-03. Cooperation with Bank of North Dakota.
Repealed by S.L. 1987, ch. 190, § 14.

21-10-04. Board - Meetings.
The state investment board shall select one of its members to serve as chair, one to serve as vice chair, and shall meet at the call of the chair or upon written notice signed by two members of the board.

21-10-05. Investment director - Powers and duties.
Subject to the limitations contained in the law or the policymaking regulations or resolutions adopted by the board, the investment director may sign and execute all contracts and agreements to make purchases, sales, exchanges, investments, and reinvestments relating to the funds under the management of the board. This section is a continuing appropriation of all moneys required for the making of investments of funds under the management of the board. The investment director shall see that moneys invested are at all times handled in the best interests of the funds. Securities or investments may be sold or exchanged for other securities or investments.

The investment director shall formulate and recommend to the investment board for approval investment regulations or resolutions pertaining to the kind or nature of investments and limitations, conditions, and restrictions upon the methods, practices, or procedures for investment, reinvestment, purchase, sale, or exchange transactions that should govern the investment of funds under this chapter.

21-10-06. Funds under management of board - Accounts.

1. Subject to the provisions of section 21-10-01, the board is charged with the investment of the following funds:
   a. State bonding fund.
   b. Teachers' fund for retirement.
   c. State fire and tornado fund.
   d. Workforce safety and insurance fund.
   e. National guard tuition trust fund.
   f. Public employees retirement system.
   g. Insurance regulatory trust fund.
   h. State risk management fund.
   i. Budget stabilization fund.
   j. Health care trust fund.
   k. Cultural endowment fund.
   l. Petroleum tank release compensation fund.
   m. Legacy fund.
2. Separate accounting must be maintained for each of the funds listed in subsection 1. The moneys of the individual funds may be commingled for investment purposes when determined advantageous.
3. The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to

agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund.

21-10-06.1. Board - Investment reports.

The board shall annually prepare reports on the investment performance of each fund under its control. The reports must be uniform and must include:

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.

21-10-06.2. Investment costs.

The amounts necessary to pay for investment costs, such as investment counseling fees, trustee fees, custodial fees, performance measurement fees, expenses associated with money manager searches, expenses associated with onsite audits and reviews of investment managers, and asset allocation expenses, incurred by the state investment board are hereby appropriated and must be paid directly out of the funds listed in section 21-10-06 by the fund incurring the expense.

21-10-07. Legal investments.

The state investment board shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments 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 retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

21-10-08. Reserves - Percentage limitations.

In order to meet claims and liabilities, reserves must be established and maintained in each of the funds in accordance with the investment policy and asset allocation established for each fund.

21-10-09. Personal profit prohibited - Penalty.

No member, officer, agent, or employee of the state investment board may profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section is guilty of a class A misdemeanor.

21-10-10. State investment board fund - Cost of operation of board.

Repealed by S.L. 1989, ch. 667, § 13.

21-10-11. Legacy and budget stabilization fund advisory board.

The legacy and budget stabilization fund advisory board is created to develop recommendations for the investment of funds in the legacy fund and the budget stabilization fund to present to the state investment board. The goal of investment for the legacy fund is principal preservation while maximizing total return. The board consists of two members of the senate appointed by the senate majority leader, two members of the house of representatives appointed by the house majority leader, the director of the office of management and budget or designee, the president of the Bank of North Dakota or designee, and the tax commissioner or designee. The board shall select a chairman and must meet at the call of the chairman. The board shall report at least semiannually to the budget section. Legislative members are entitled to receive compensation and expense reimbursement as provided under section 54-03-20 and reimbursement for mileage as provided by law for state officers. The legislative council shall pay the compensation and expense reimbursement for the legislative members. The legislative council shall provide staff services to the legacy and budget stabilization fund advisory board. The staff and consultants of the state retirement and investment office shall advise the board in developing asset allocation and investment policies.

NDTFFR UPDATE

ND Retired Teachers Convention – Jamestown
August 29, 2012

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

TFFR Board of Trustees

TFFR Mission:

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

TFFR Board of Trustees

- Retired Members
  - Lowell Latimer, Minot – Vice President
  - Clarence Corneil, Dickinson
- Active School Teachers
  - Mike Gessner, Minot – President
  - Kim Franz, Mandan
- Active School Administrator
  - Bob Toso, Jamestown
- State Officials – Ex officio members
  - Kelly Schmidt, State Treasurer
  - Wayne Sanstead, State Superintendent

State Investment Board (SIB)

State Officials

- Lt. Governor
  Drew Wrigley, Chairman
- State Treasurer
  Kelly Schmidt
- State Insurance Comm.
  Adam Hamm
- State Land Comm.
  Lance Gaebe
- Workforce Safety & Insurance
  Cindy Ternes

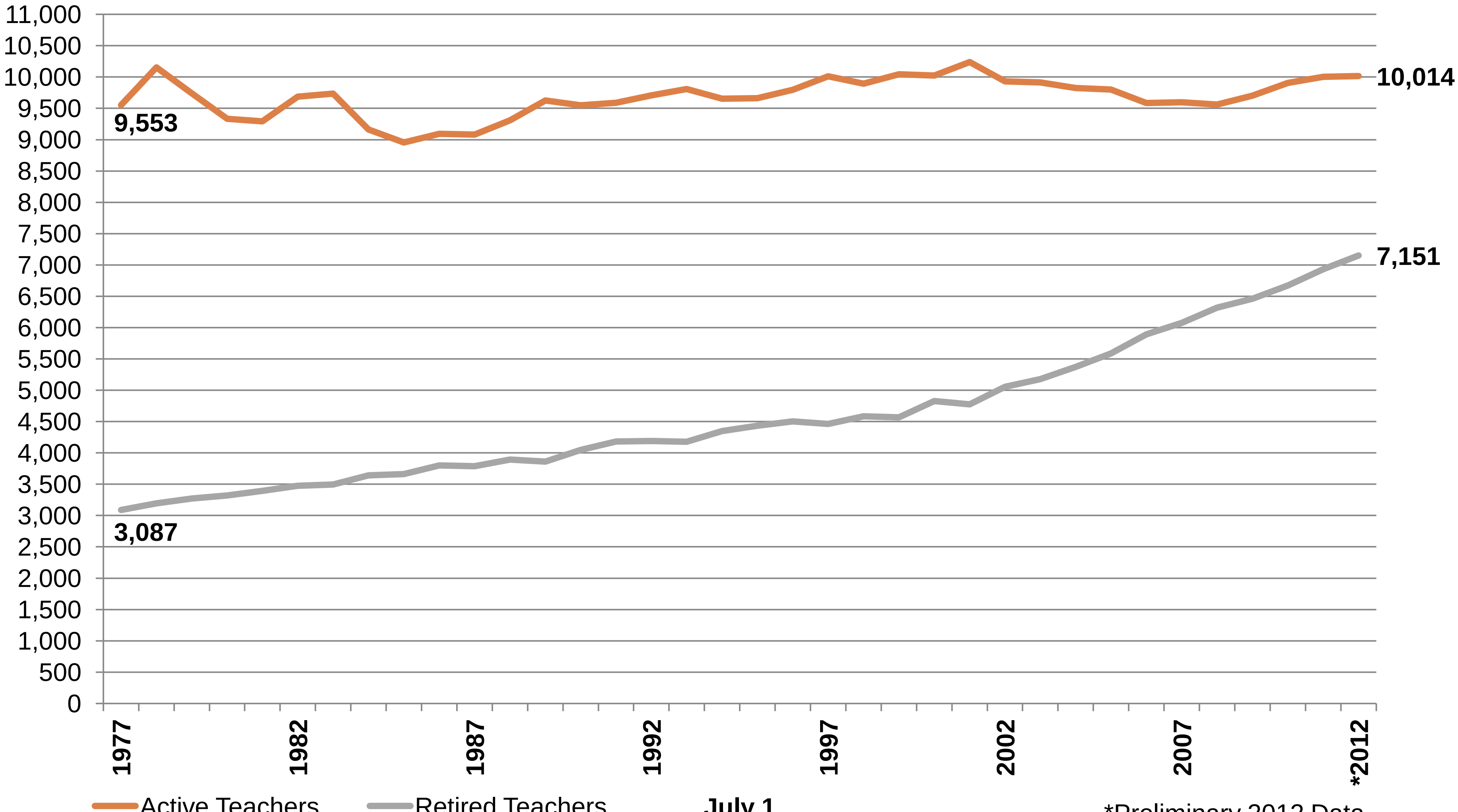
Pension Representatives

- Clarence Corneil (TFFR)
- Mike Gessner (TFFR)
- Bob Toso (TFFR)

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

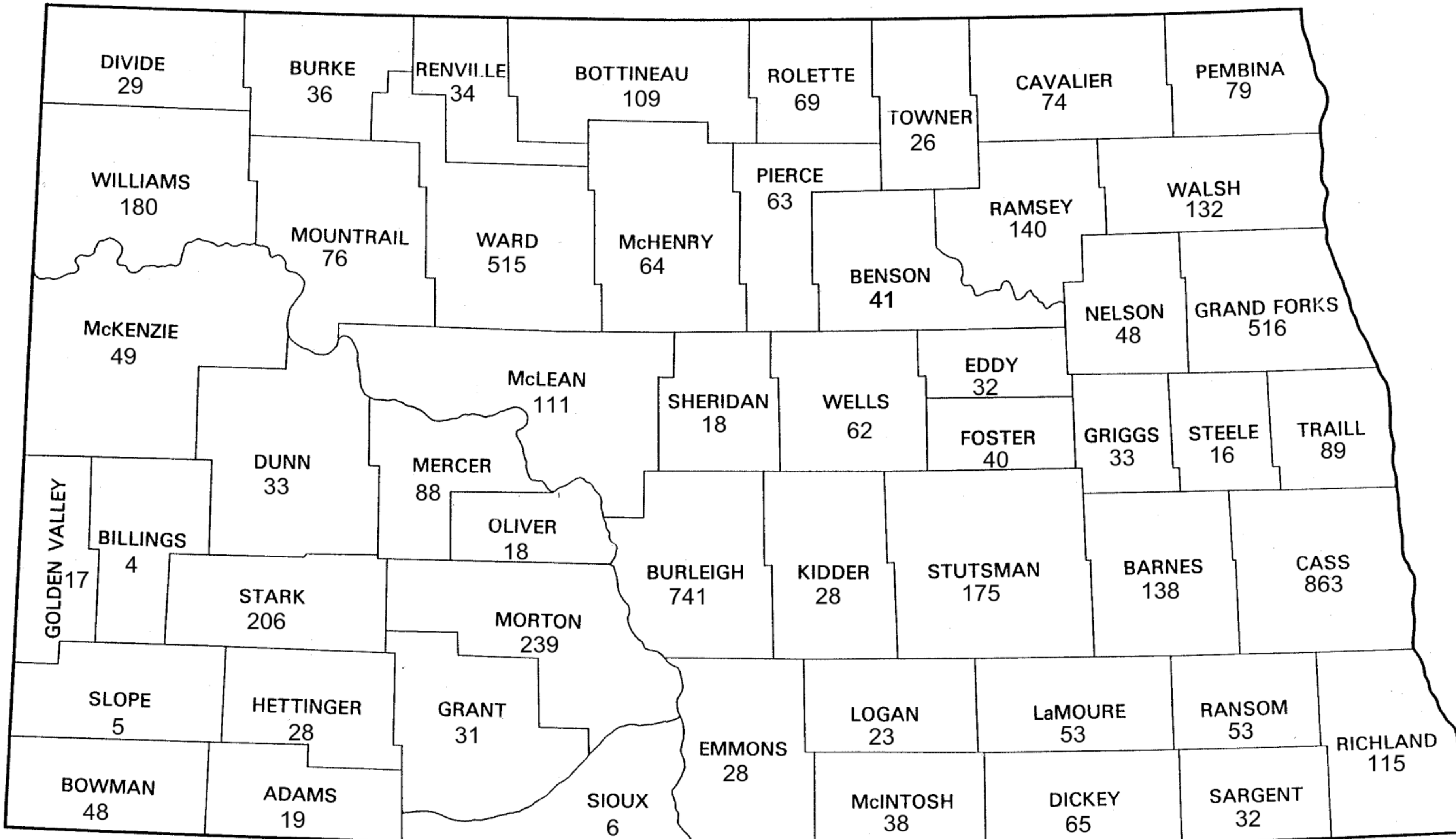
TFFR Statistics

Active and Retired TFFR Members 1977 – Present



*Preliminary 2012 Data

TFFR Retired Members



In-state	5,775
Out-of-state	1,376
Total	7,151

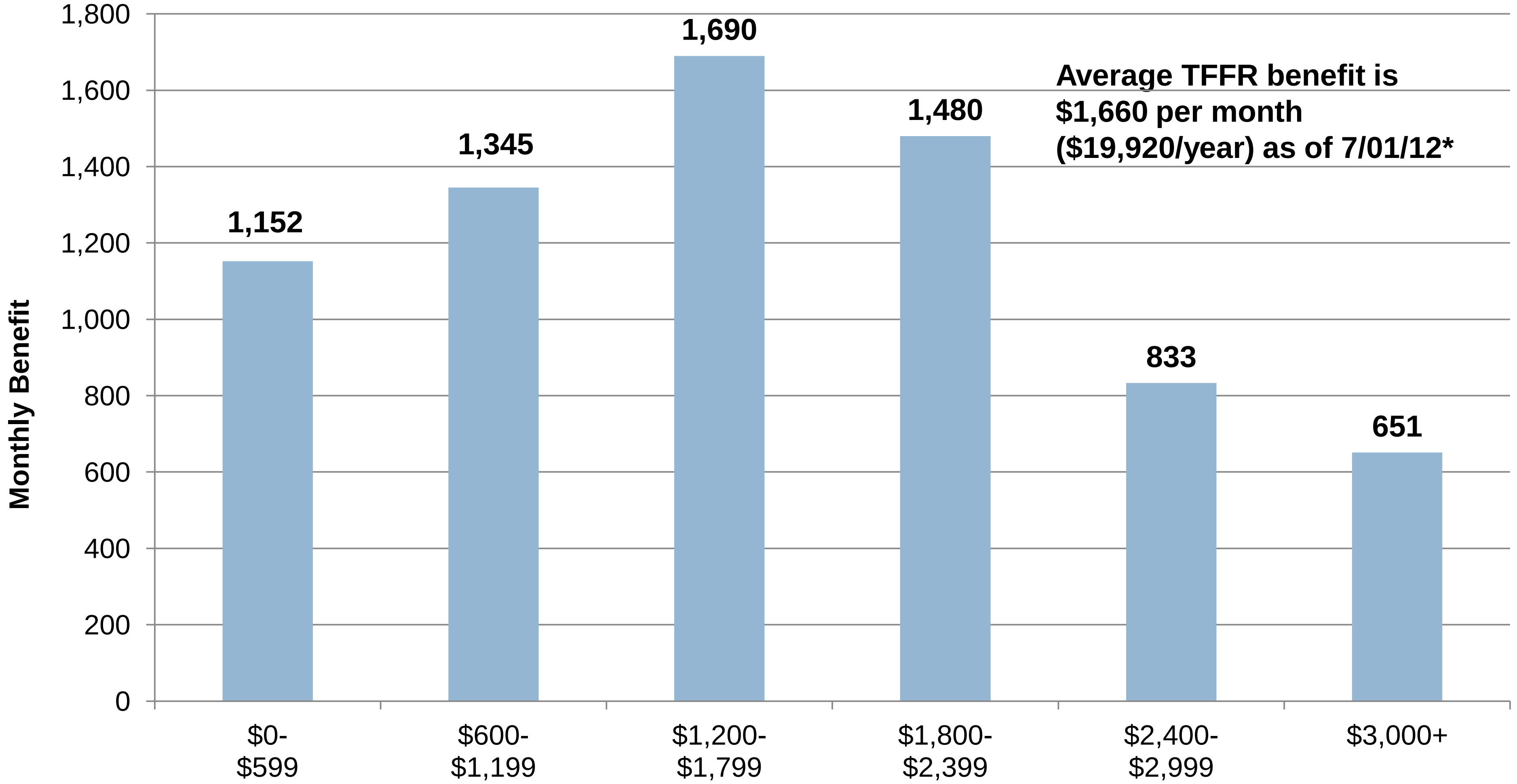
*Preliminary 2012 data

Average Monthly TFFR Benefits by County

(*preliminary 2012 data)

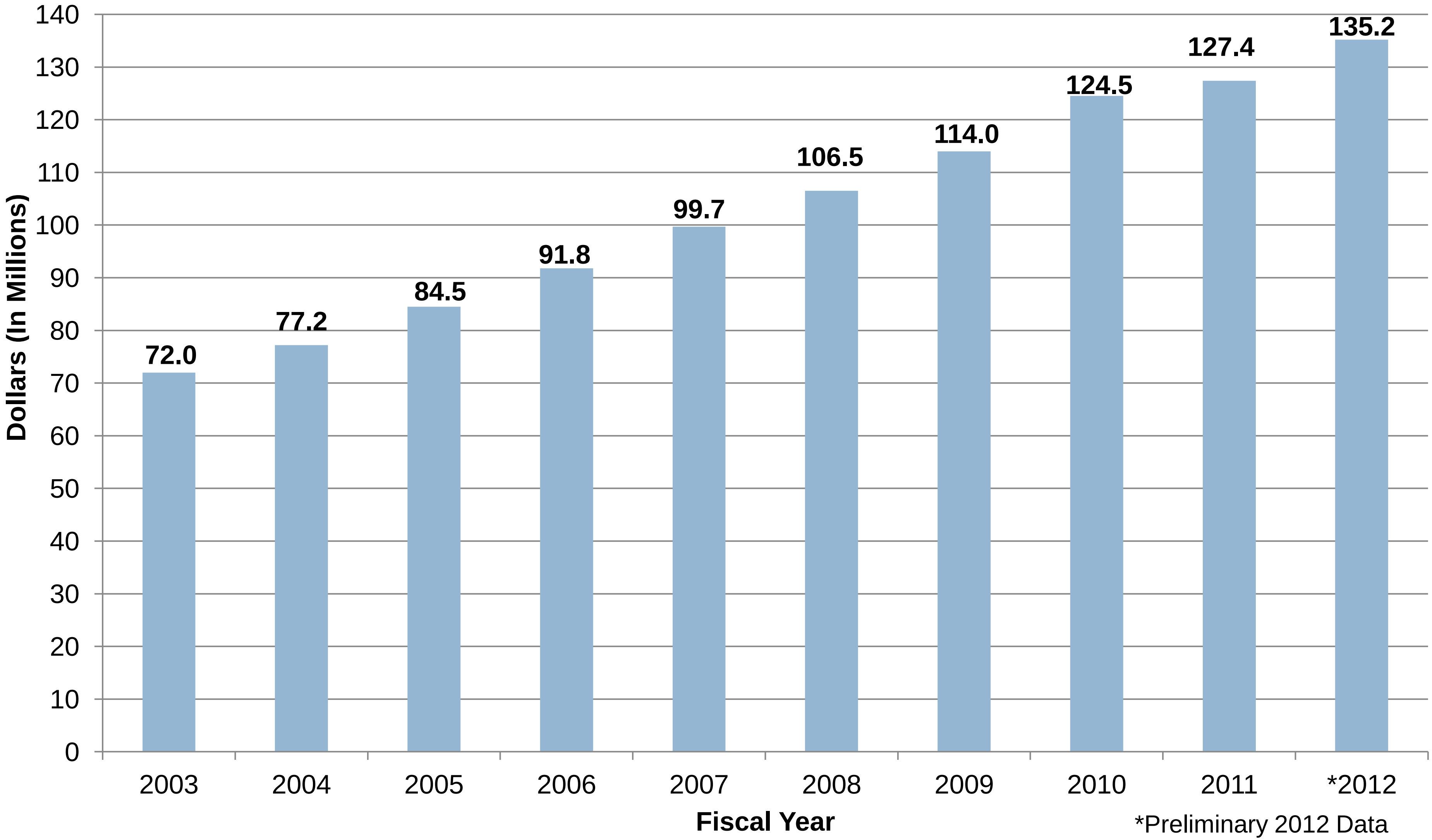
County	Number	Average	Total Benefits	County	Number	Average	Total Benefits
Adams	19	1,459	27,727	Mercer	88	1,793	157,748
Barnes	138	1,789	246,905	Morton	239	1,760	420,643
Benson	41	1,779	72,954	Mountrail	76	1,440	109,450
Billings	4	1,249	4,997	Nelson	48	1,450	69,608
Bottineau	109	1,555	169,514	Oliver	18	1,757	31,628
Bowman	48	1,570	75,340	Pembina	79	1,798	142,017
Burke	36	1,401	50,451	Pierce	63	1,622	102,163
Burleigh	741	1,807	1,338,944	Ramsey	140	1,540	215,636
Cass	863	1,913	1,650,724	Ransom	53	1,465	77,640
Cavalier	74	1,382	102,258	Renville	34	1,773	60,271
Dickey	65	1,219	79,214	Richland	115	1,802	207,213
Divide	29	2,049	59,424	Rolette	69	1,569	108,253
Dunn	33	1,874	61,836	Sargent	32	1,261	40,365
Eddy	32	1,572	50,319	Sheridan	18	1,409	25,369
Emmons	28	1,539	43,083	Sioux	6	854	5,121
Foster	40	1,783	71,315	Slope	5	924	4,622
Golden Valley	17	1,363	23,175	Stark	206	1,711	352,371
Grand Forks	516	1,946	1,004,033	Steele	16	1,379	22,069
Grant	31	1,279	39,644	Stutsman	175	1,664	291,259
Griggs	33	1,397	46,115	Towner	26	1,538	39,988
Hettinger	28	1,638	45,860	Traill	89	1,584	141,004
Kidder	28	1,547	43,314	Walsh	132	1,576	208,071
LaMoure	53	1,578	83,631	Ward	515	1,748	900,023
Logan	23	1,556	35,796	Wells	62	1,651	102,380
McHenry	64	1,576	100,871	Williams	180	1,783	320,981
McIntosh	38	1,604	60,938	**Totals**	**5,775**	**1,735**	**10,018,657**
McKenzie	49	1,861	91,171	Out of State	1,376	1,346	1,852,003
McLean	111	1,651	183,211	**Grand Totals**	**7,151**	**1,660**	**11,870,660**

Monthly TFFR Benefits by Benefit Amount



*Preliminary 2012 Data

Annual TFFR Pension Benefits Paid



TFFR Investments

Investment and Funding Goals

- 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 retirement benefits.

Asset Liability Study

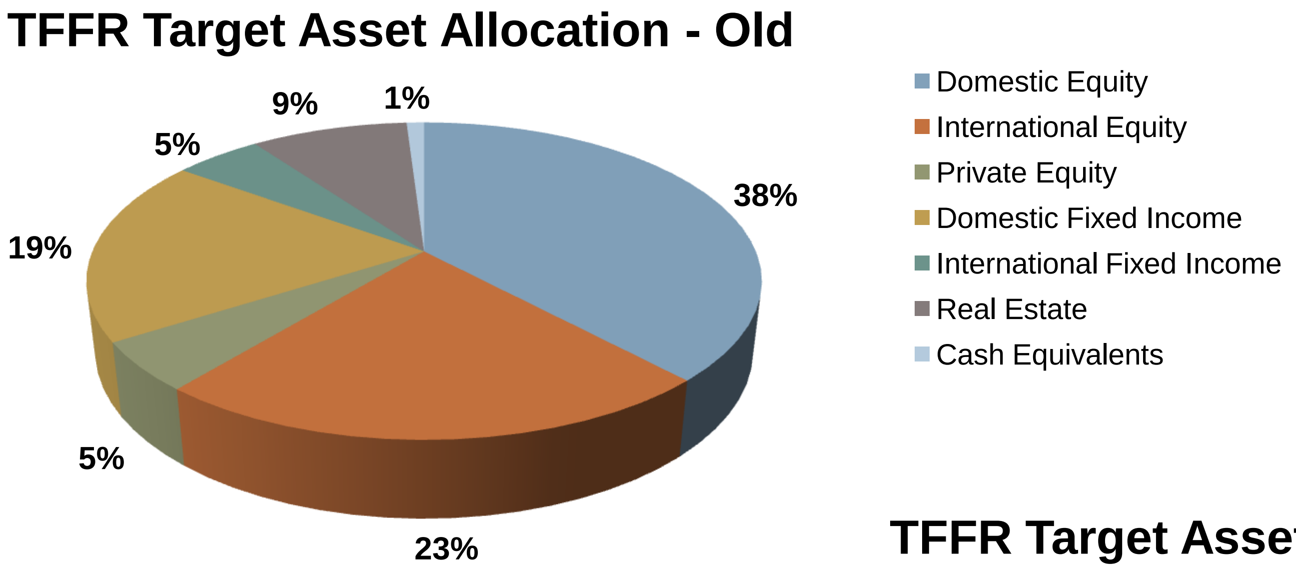
- Asset Liability Study was completed in Fall 2011.

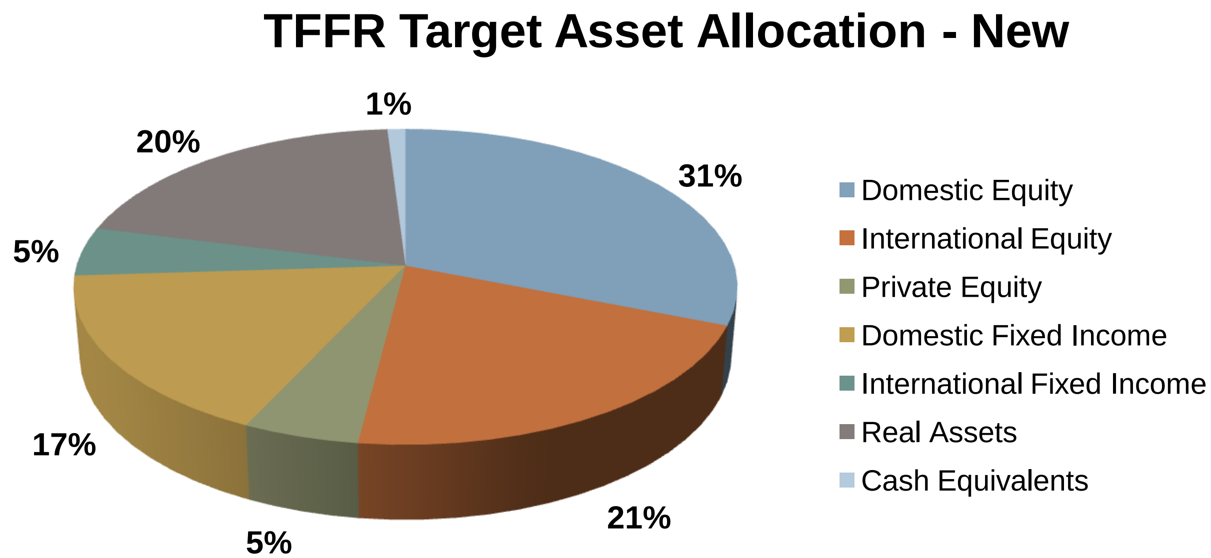
- TFFR developed a new framework which defines broad asset classes (global) that capture the opportunity set, with clearly defined components that are specific enough to enable clear accounting of market exposures. The new framework is also flexible enough to allow for innovation and the inclusion of new strategies as they arise and are appropriately vetted.

- The framework divides the portfolio into three basic categories, defined by their reactions to specific capital market factors:
  - Equity (growth and capital appreciation)
  - Fixed income (income, low risk, flight to quality, deflation)
  - Real assets (inflation, income, diversification)

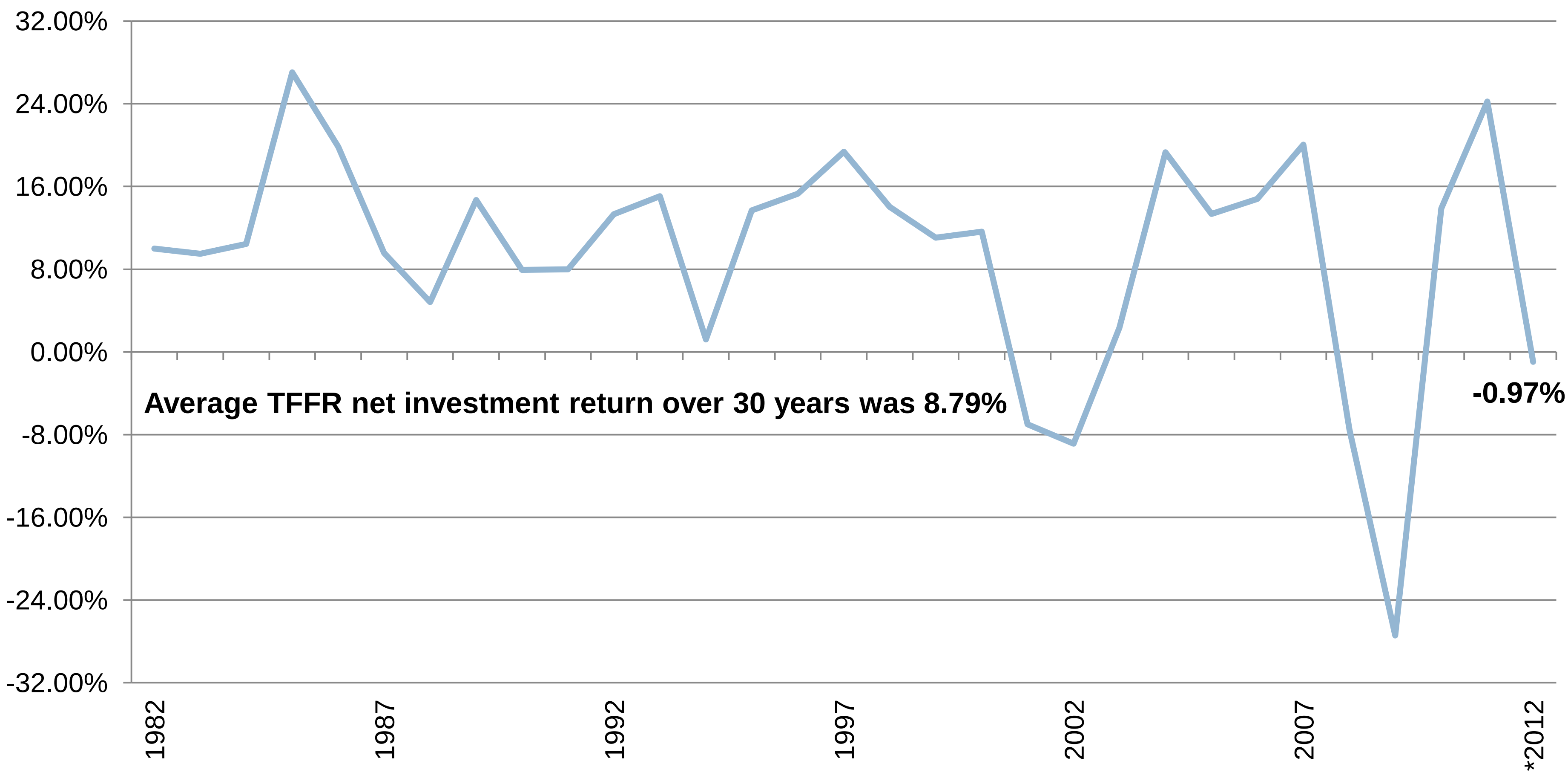
- TFFR updated investment policy statement which includes new framework, asset allocation, and investment and funding goals.

TFFR Asset Allocation





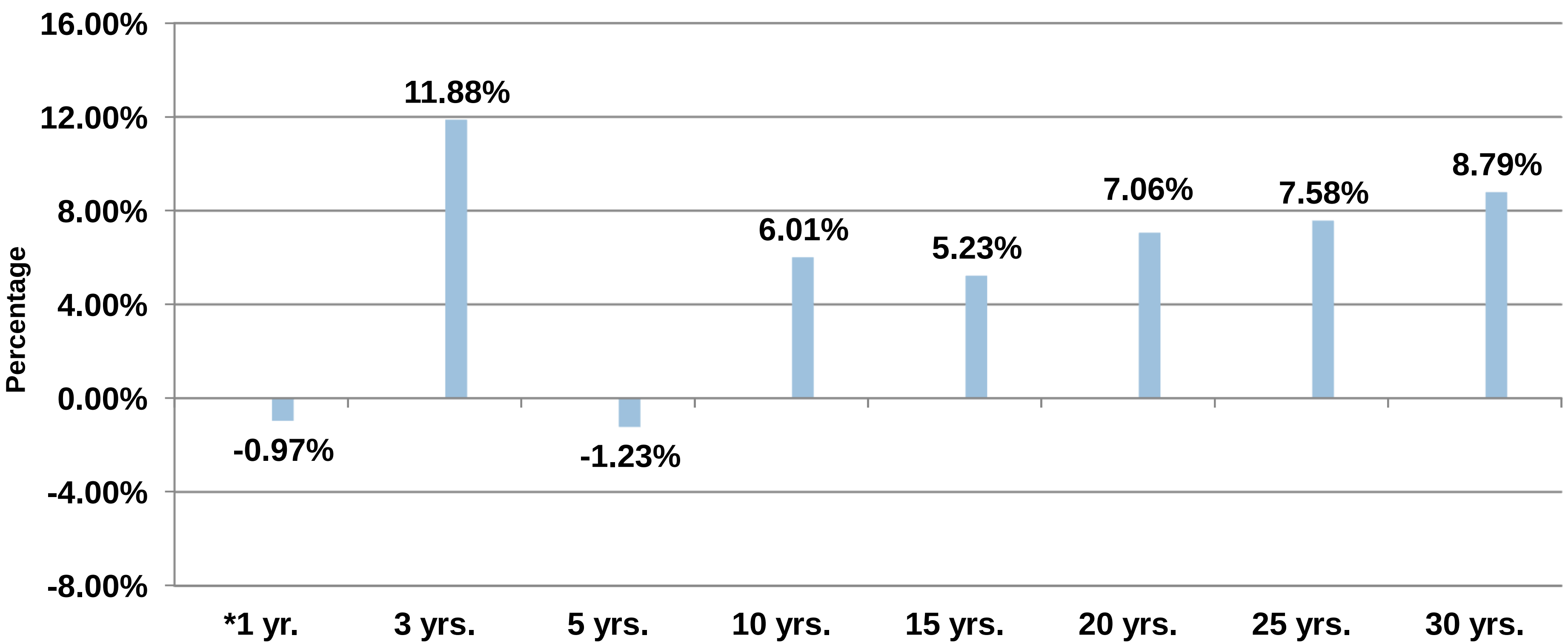
TFFR Investment Performance – Annual 1982-2012



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

*Preliminary 2012 Data

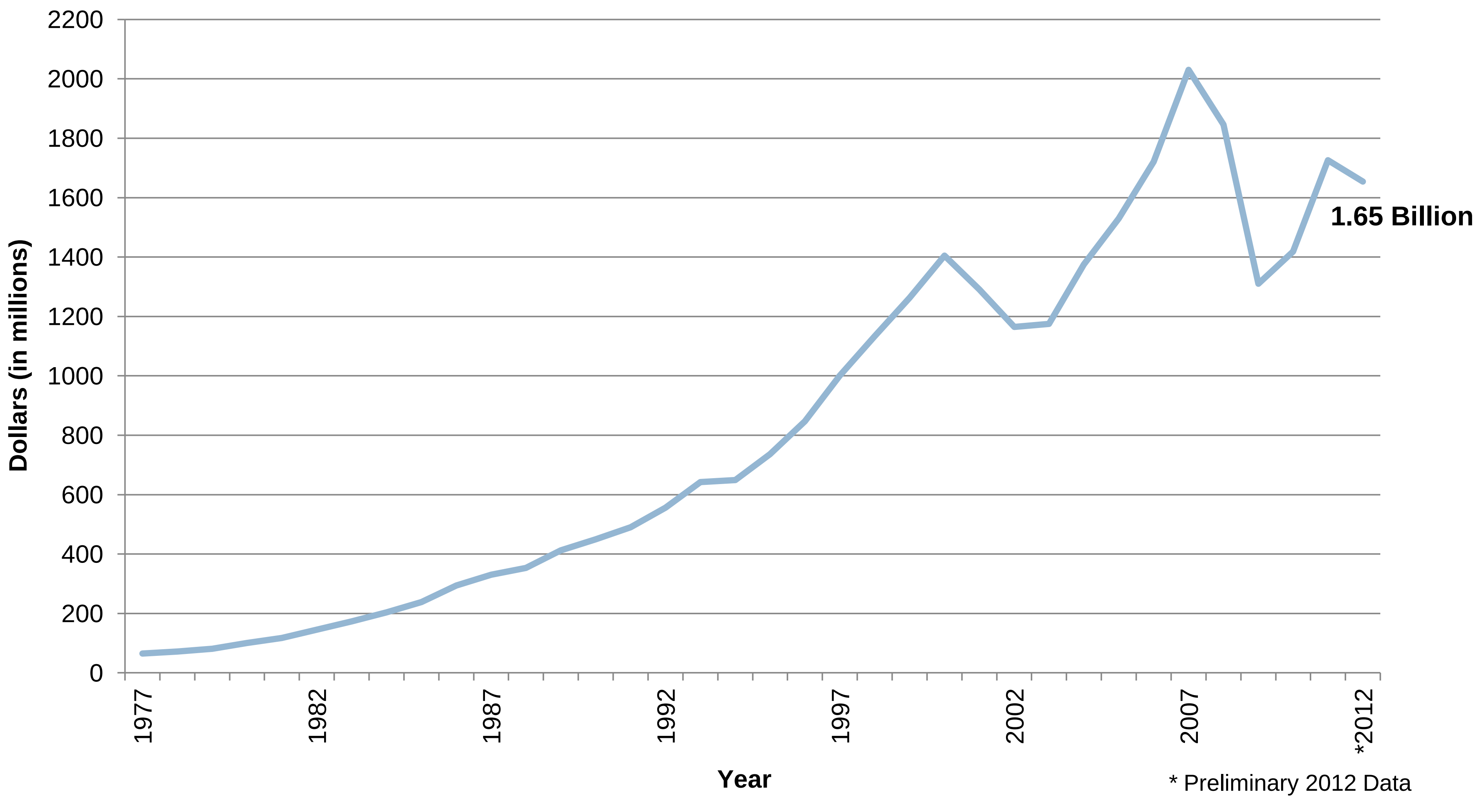
TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2012



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

*Preliminary 2012 Data

Market Value of TFFR Assets 1977 - 2012



TFFR Funding and Legislation

2011 Valuation Report

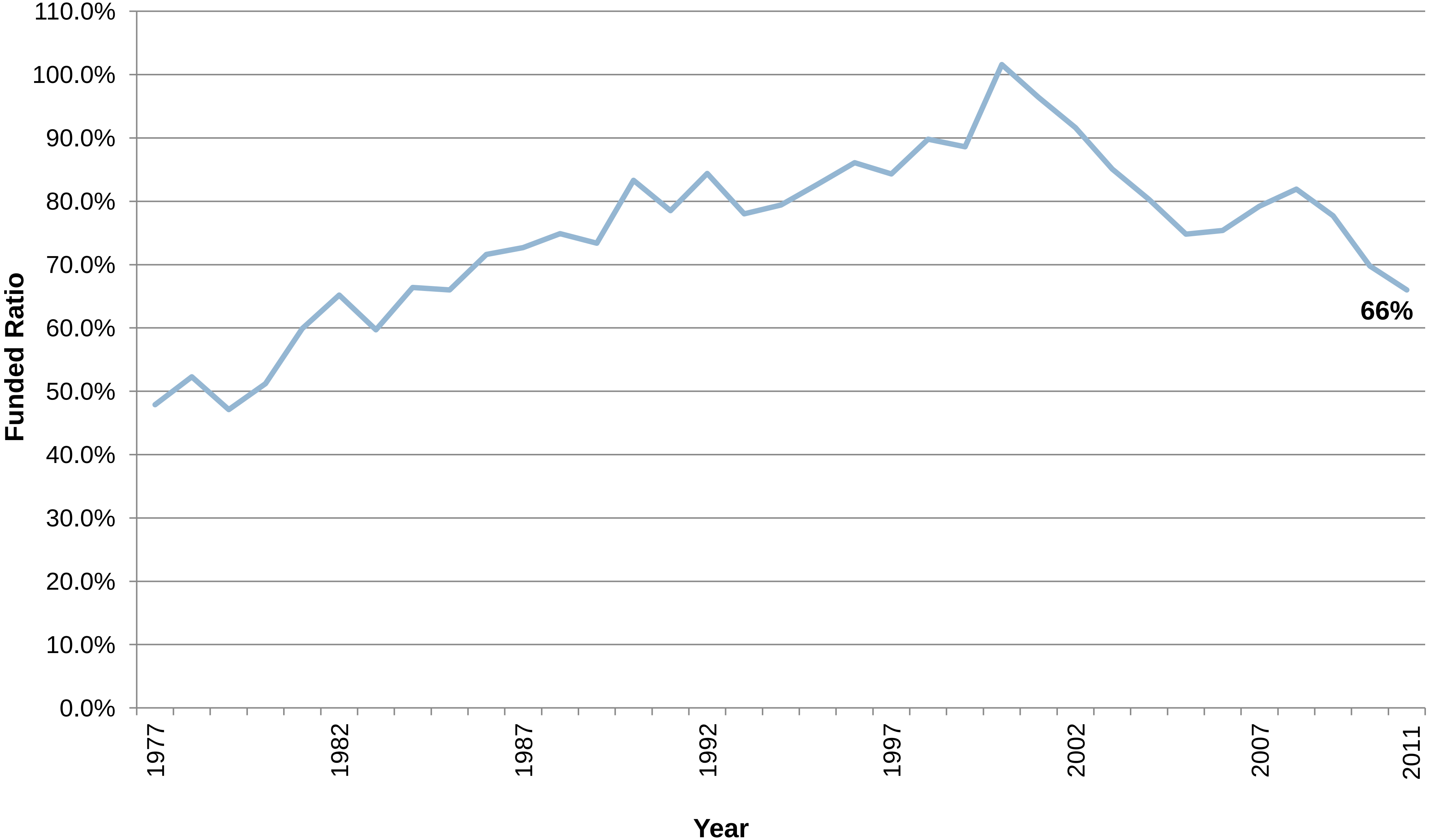
Actuarial Accrued Liability	(AAL)	$2.7 billion
Actuarial Value of Assets	(AVA)	- 1.8 billion
Unfunded AAL	(UAAL)	$0.9 billion
AVA Funded Ratio		**66%**

Note:

Market Value of Assets (MVA)	$1.7 billion
MVA Funded Ratio	63%

- 2012 valuation report is in process. Results will be presented to TFFR Board in October 2012, and posted to website.

TFFR Funded Ratio (AVA) 1977 - 2011



2011 Approved Legislation

- **In 2011, the TFFR Board recommended legislative changes to help to ensure the long-term solvency of the pension fund (HB1134).**

- Proposal reflected shared responsibility between teachers and school districts for funding improvement, and includes both contribution increases and benefit changes.

- Funding improvement bill received favorable recommendation from interim Legislative Employee Benefits Programs Committee.

- Funding improvement bill (HB1134) was approved by the 2011 Legislative Assembly.

Increase Member and Employer Contributions

RATES %	Employer	Member	Total	Increase
7/1/11	8.75%	7.75%	16.5%	---
7/1/12	10.75%	9.75%	20.5%	+4%
7/1/14	12.75%	11.75%	24.5%	+4%

Note 1: Both member and employer contributions are also required on salary of all re-employed retirees at same rate as active members. Payment of retiree contributions by employer must be same as what is paid for active members (if any), based on Employer Payment Plan Model. Retiree's pension benefit will not increase.

Note 2: Increased member and employer contribution rates in effect until TFFR reaches 90% funded ratio, then rates reduced to 7.75% each.

Benefit Changes

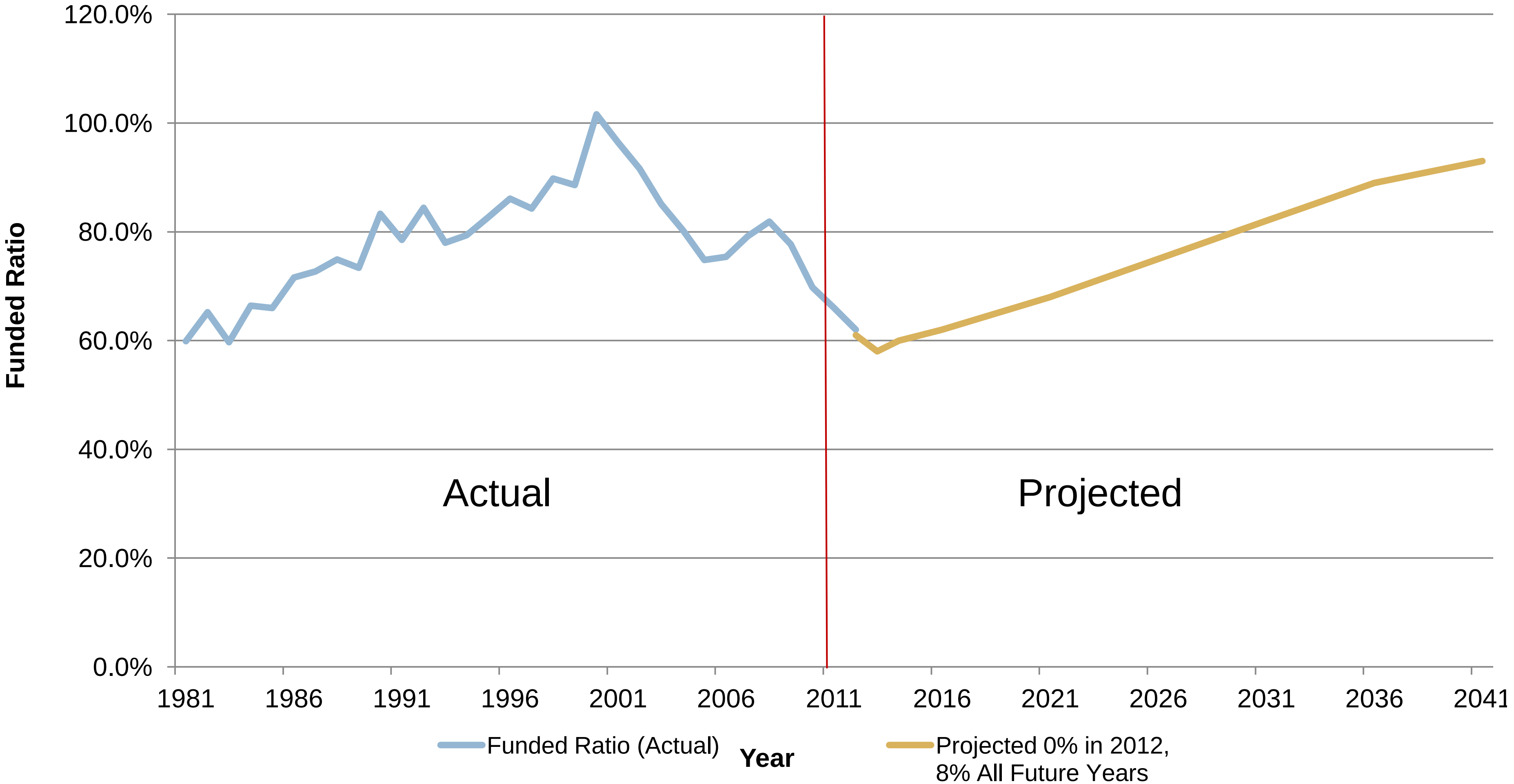
- Tighten disability retirement eligibility and benefit calculation.
- Raise retirement eligibility age for unreduced benefits for non-grandfathered employees.
  - Grandfathered Tier 1 employees within 10 years of retirement will retain current eligibility provisions (i.e. Rule of 85).
  - Non-grandfathered Tier 1, Tier 2, and future employees will have to work or defer until age 60 with Rule of 90 or age 65 to be eligible for unreduced benefits.
- Increase reduction factor for early reduced benefits from 6% to 8% for non-grandfathered employees.

TFFR Funding Improvement Expected

- **With the approved 2011 legislative changes, funding recovery is expected to occur gradually over time.**
  - After the 2008-09 investment losses are smoothed into actuarial calculations
  - After increased retirement contributions begin to flow into the system.

- **Time is needed for the changes made to show positive funding results.**
  - Actuarial projections show it will likely take 20-30 years before TFFR reaches 80% - 100% funding levels, if the plan meets all actuarial assumptions, including the 8% investment return assumption.
  - The slow economic recovery and ongoing global market volatility make a long-term focus particularly important for pension plans like TFFR.

TFFR Funded Ratio (AVA)
Actual and Projected (based on 2011 valuation)



2013 Legislative Proposals

- A funding improvement bill was not submitted for interim legislative study by TFFR Board since actuarial projections show long term funding improvement is expected to occur due to the changes made by the 2011 Legislature (if actuarial and investment assumptions are met).

- TFFR Board submitted **Bill No. 99** for interim study which includes technical corrections and administrative updates only.

- **Bill No. 43** was submitted by Rep. Louser. The bill would maintain the higher 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). Once full funding is achieved, contribution rates would be reduced to 7.75% for members and 7.75% for employers.

Frequently Asked Questions (FAQ)

1) Is TFFR's funding situation improving?

- Funding levels are expected to dip for the next few years as 2008-09 investment losses are phased in, and then should begin to improve as increased member and employer contributions begin to flow into the system. See Projected Funded Ratio chart.

- If investment returns are greater than 8% over the long term and if TFFR reaches 90% funded level, employee and employer contribution rates will be reduced sooner than expected.

- If investment returns are less than 8% over the long term, higher contribution rates will remain in effect, and funding progress will take longer.

- Funding improvement will be a long, slow process.

2) When will I receive an increase in my monthly pension benefit?

- TFFR does not anticipate being in a financial position to fund retiree benefit improvements for many years in the future due to a funding shortfall.
- However, because TFFR is a defined benefit pension plan, current retiree benefits will be paid for life.

3) Why is my check amount different than it was last month?

- Tax table changes (January), or if you changed tax withholding amount.
- NDRTA or NDEA-R annual dues (July)
- Benefit correction for new retirees
- Other

4) What is the difference between a defined benefit and defined contribution plan?

- **Defined benefit plan (DB)** – the benefit is defined, but the contribution is not (i.e. TFFR).
  - Employer bears most plan risks.
  - Focus is on benefit security.
- **Defined contribution plan (DC)** – the contribution is defined, but the benefit is not (i.e. 401k, 403b, 457 plans)
  - Employee bears plan risks.
  - Focus is on wealth accumulation.
- **Types of plan risks:**
  - Investment
  - Inflation
  - Contribution
  - Longevity

Comparison of DB and DC Plans

Objective	Defined Benefit	Defined Contribution
Funding Certainty	Plan liabilities change based on actuarial assumptions, e.g., future salary increases, investment earnings, employee turnover.	Employer liability is fulfilled annually as contributions are made to employee accounts based on a percentage of payroll.
Predictable Contributions	Annual contributions may vary from year-to-year based upon actuarial assumptions. Rates may be set by statute to increase predictability. (These rates may need to be changed periodically.)	Annual cash expenditures are more predictable as they are based on a set percentage of employee salaries.
Recruitment Tool	Some portability through service credit purchase or return of employee contributions.	Assets are portable.
Reward Career Employees	Benefits are typically based on final year(s) salary, rewarding career employees.	Benefits are based upon accumulated contributions and earnings.
Expenses	Expenses include actuarial valuations, investment fees, and administrative fees. Employer pays these fees.	Employer expenses may be lower than a defined benefit plan because no actuarial valuations are necessary and investment fees are shifted to the employee. Employee education costs may be higher.

Comparison of DB and DC Plans

Objective	Defined Benefit	Defined Contribution
Benefit Potential	Benefits paid at retirement are for life and are guaranteed by the plan's benefit formula.	Benefits paid at retirement are based on contributions and earnings. The final retirement benefit can be eroded by pre-retirement distributions.
Understandable Benefits	Benefits require explanation because they are based on a set of variables, e.g., future earnings and year of service at retirement.	Benefits are based on accumulated contributions plus earnings at the time of retirement. Market fluctuations and life expectancy make it difficult to manage retirement benefit.
Access to Benefits While Employed	Benefits may not be withdrawn while actively employed.	Benefits may be withdrawn or loaned under certain circumstances.

5) What is a hybrid plan?

- **Hybrid plan** – combination of a DB plan and a DC plan (i.e. combined, crossover, cash balance plans)
- **Reasons Hybrids are considered:**
  - Lower employer costs
  - Reduce employer contribution volatility
  - Provide greater benefit flexibility
  - Increase portability
  - Make the plan more understandable
  - Modify the risk characteristics of the benefit offering
- **There is no magic equivalent plan**
  - Difference rests in risk and performance

Future of TFFR

- 2013 legislative session
  - While TFFR Board does not plan to submit funding improvement legislation in 2013, we do expect continued discussion about financial sustainability of current defined benefit plan, and possible creation of defined contribution and/or hybrid plans.
  - Expect more discussion about 2% benefit formula, retirement eligibility age, salaries used in benefit calculation, retiree re-employment, etc.
- 2013 - 100 year anniversary of TFFR

TFFR Information

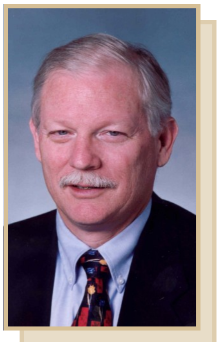
TFFR website: www.nd.gov/rio

- Legislation
  - Links to ND Legislative website, bill drafts, actuarial analysis
- Presentations
  - Webcast presentations on funding and legislative proposals
  - Presentations made to member and employer groups
- Publications and Reports
  - Newsletters, handbook, brochures
  - Actuarial and audit reports
- Contact Information
  - Phone: 701-328-9885 or 1-800-952-2970
  - Email: fkopp@nd.gov

Third Quarter 2012

A Fond Farewell

By Jim Mosman, Executive Director–*Retired*, National Council on Teacher Retirement



It has been a privilege and an honor to serve as NCTR Executive Director over the past ten years. I have met so many great and dedicated people. All have one thing in common in that they carry out a sacred mission: retirement security for millions of teachers and other public employees.

Prior to NCTR, I spent 12 years as CEO of CalSTRS. This was a wonderful period for pensions. Most of our time was spent on the improvement of benefits and services for the membership. The investment markets of the 1990s were extremely generous and, at the turn of the century, our biggest concern was that the software in our computers would fail. Unfortunately, we all got a little complacent. Almost everyone seemed to believe that the markets would continue to go up and up.

The first decade of the new century could not have been more opposite. A deep recession and turbulent financial markets put a huge dent in the funding status of almost all pension funds. At the same time, State budgets were depleted, making pension fund contributions a target in many places. A new expression soon emerged: Pension Envy. Those without pensions and those in 401 (k) plans with reduced balances soon begin to look at the public sector with envy. Rather than making an attempt to improve private sector plans, the attack on the public sector began in earnest. Thus, for a good part of the last decade, we have spent a substantial amount of effort on the preservation of public sector defined benefit plans.

There have been many high points in my time with NCTR. There is a satisfying sense of fulfillment when the NCTR staff constructs and executes a successful event such as an Annual Convention or a Trustee Workshop. I have had the opportunity to work on ten conventions and each one has its own special memory. Certainly the most traumatic was in 2005 when we had to move the convention from New Orleans because of the extensive damage to the city from Hurricane Katrina. Within 30 days, we had to find a new city, secure a hotel, and reconstruct the convention. Tampa turned out to be a great alternative site.

There are a couple of things that provide particular satisfaction. Over the last decade, trustees have been thoroughly integrated into the governance structure of the organization. I have had the pleasure of working under three Trustee Presidents; and numerous trustees serve on NCTR commit-

Continued on page 4

Jim Mosman retired as NCTR Executive Director at the end of June, at which time Meredith Williams stepped into the position, after 12 years as Executive Director of Colorado PERA. Meredith was selected by the NCTR Executive Committee after a nationwide search. He will work from Colorado, while the NCTR headquarters will continue to be based in Sacramento, California.

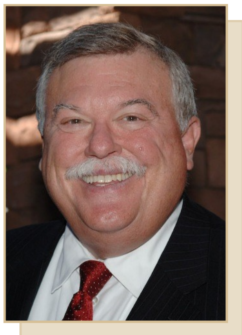
NATIONAL COUNCIL ON TEACHER RETIREMENT

Supporting Retirement Security for America's Teachers

CAPITOL COMMENTARY

FED UP

By Leigh Snell, NCTR Federal Relations Director



I'm hot—and not just because it's August in Washington. Here's why.

Nearly half of the oldest Baby Boomers risk not having sufficient resources to pay for basic retirement expenditures, according to the Employee Benefit Research Institute (EBRI). EBRI also finds that 60% of all Americans have less than $25,000 in savings.

Furthermore, almost half of all private sector workers do not have access to employer-provided retirement plans. For those who do, the median household headed by a person aged 60 to 62 with a 401(k) defined contribution (DC) account has less than one-quarter of what is needed to maintain the household's standard of living in retirement, according to the Center for Retirement Research at Boston College (CRR).

Private sector defined benefit (DB) plans are also struggling. A recent report from S&P Dow Jones Indices finds record DB and OPEB underfunding for S&P 500 companies.

Finally, according to CRR, the gap between the retirement savings that Americans have today and what they *should* have to maintain their standard of living is $6.6 *trillion*. Indeed, based on Federal government data, nearly 6 million Americans aged 65 and over were living in poverty or near-poverty in 2010; and by 2020, that number is expected to increase by 33%.

Yet for many academics, the foundations who fund them, the organizations that tout their studies, and the press that spins their reports based on a media predisposition to find fault, the only story worth talking about concerns public pension "problems."

I don't know about you, but I'm getting fed up.

I'm fed up with the myopic viewpoint that produces a statement from one such academic that "a lot of talk about a retirement savings crisis is far overblown." I'm fed up with politicians saying DB plans are outdated and inappropriate for state and local governments when the National Institute on Retirement Security (NIRS) has found that delivering the same retirement income to a group of workers is 46% cheaper using a DB plan than a DC plan.

> ***"I'm fed up with politicians saying DB plans are outdated and inappropriate..."***

But I'm most fed up with the lack of any alternative plan being offered by these critics of public pensions that will provide real retirement security for our nation as a whole. Converting governmental DB plans into individual 401(k) accounts will not produce secure retirements for the private sector. Robbing Peter will not pay Paul.

Instead, isn't it time for a real national discussion about retirement security for all Americans? Senator Tom Harkin (D-IA) has produced a new report, "The Retirement Crisis and a Plan to Solve It," that is intended to start just such a dialog. He proposes a new approach based on four basic principles: automatic participation; shared responsibility and risk; pooled and professional asset management; and lifetime income.

Sounds very much like a public sector DB plan to me! Kudos to Senator Harkin, who says that over the coming months, he plans to bring together business and labor leaders, policy experts, advocates, and his fellow lawmakers to implement necessary reforms.

Maybe now I can start cooling down.

ON THE WEB

MONITOR DC activities with **LEIGH SNELL** in his **FEDERAL E-NEWS BLOG** and **NCTR WEBINARS**

Visit www.nctr.org for details.

SNAPSHOTs

2012 Educational Opportunities

NCTR held three programs at the Colorado PERA headquarters this year. As hosts, PERA opened its board rooms for sessions, held a tour of operations, and actively participated in the agendas. Administrative Assistants and Communications Specialists gathered in May, System Directors in June.

Administrative Assistant Workshop

Above, Administrative and Executive Assistants from 11 different public teacher retirement systems take a photo break.

Left, Carole Wright, retired teacher and Chair of the Colorado PERA Board of Trustees, gathers input from attendees to draw a chart demonstrating the myriad of tasks Administrative Assistants do for their boards.

"Do board members know you do all these things?" she asked during this "Trustee Perspective" session. "I suggest you let them know."

Right, PERA Communications Director Katie Kaufmanis explains the system's call center layout and process during a tour of PERA headquarters.

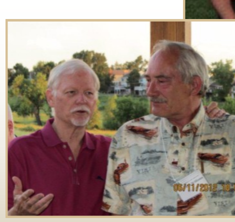
Communications Specialist Workshop

Above, participants gather outside the PERA facility (ongoing work back home occasionally required phone calls and multi-tasking).

Right, Will Harmon, Communications Manager of Montana TRS, fields aggressive questions during a mock interview by a media strategist. "Teachers are the profession that teaches all other professions," he points out in response to a challenge about pensions.

The recorded interviews were immediately played back to the group and professionally critiqued for do's and don'ts in responding to the media.

25th Annual System Directors' Meeting



Above, Directors of city, regional, and state systems interrupt networking for a group shot. *Left*, retiring NCTR Executive Director Jim Mosman shares stories with appointed successor Meredith Williams.

Continued from page 1

A Fond Farewell

tees. I am also very proud of the effort that led to the establishment of the National Institute on Retirement Security (NIRS). NCTR was instrumental in recognizing the need for such an organization and then lent assistance and financial support to help launch it. This entity has rapidly earned a reputation for solid research supporting public pension plans.

Finally, and perhaps most important, I must thank my staff. It has become an effective team, with Robyn Gonzales and Leslie Kranz working with me in the Sacramento office, and Leigh Snell and Don Miller working from their own locations. NCTR operations have improved immensely over the past decade.

There are many challenges that will face the new Executive Director. NCTR must continue to adapt to changes in the digital world. We also operate in a very competitive environment and our products have to be first class for us to be successful. At the same time, all of you, too, face immense challenges in your own environments. I wish all of you the best and know that you will succeed. ❖

NCTR 90th Annual Convention

Agenda-at-a-Glance

SUNDAY, OCTOBER 7, 2012
- Pre-Convention Workshop: Trends in Our Industry

MONDAY, OCTOBER 8, 2012
- 2012 Elections
- Taking the Long View Amidst Economic Uncertainty
- Future of Retirement Security
- Bad Plan: Why 401(k)s Won't Save the Day
- Equities: US versus Global
- CIO Panel

TUESDAY, OCTOBER 9, 2012
- Future of Healthcare Marketplace
- Alternative Investments Panels
- Risk Management
- Workshops: (1) Fixed Income; (2) Legal Update
- 2012 National Teacher of the Year

WEDNESDAY, OCTOBER 10, 2012
- Implementing GASB
- Actuarial Issues
- Legislative Session
- Annual Business Meeting

Full agenda posted at www.nctr.org

2012 NCTR Events

Join us for our 90th Annual Convention!
October 7–10 • Tucson, AZ

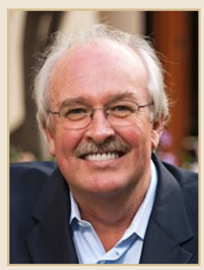
REGISTRATION NOW OPEN AT WW.NCTR.ORG

Register by 9/10/12 to avoid late fees.

SPEAKER HIGHLIGHTS

MARA LIASSON
Who better to provide a perspective on the upcoming elections? Political contributor to FOX News Channel and national political correspondent for NPR, Ms. Liasson is acclaimed for her excellent and astute reporting.

REBECCA MIELIWOCKI
This enthusiastic 2012 National Teacher of the Year has inspired students for 14 years, the last nine as a 7th-grade English teacher in Burbank, California. Ms. Mieliwocki has been praised as a truly gifted and innovative educator.



IAN MORRISON, PhD
What's ahead in healthcare for retirees? Dr. Morrison, author, consultant, and futurist, is internationally known for long-term forecasting and planning, with particular focus on health care and the changing business environment.

ELLEN E. SCHULTZ
Columnist and former investigative reporter at *The Wall Street Journal*, Ms. Schultz has covered the unfolding retirement crisis for almost 20 years. Her work has prompted legislative reform and investigations by the Treasury Inspector General and the GAO.

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NASRA Updates Brief on Public Pension Plan Investment Return Assumptions

On July 9, 2012, the National Association of State Retirement Administrators (NASRA) released its issue brief, *Public Pension Plan Investment Return Assumptions*, which updates an earlier version published in March 2010.

In recent years, some media reports have suggested that the investment return assumptions of public pension retirement systems are unrealistically high. In response, NASRA examined public pension investment return data and found that, on average over the past 25 years, public pension funds have exceeded their assumed rates of investment return. Prepared by Keith Brainard, research director for NASRA, the brief finds that the median actual investment return for the 25-year period ending December 31, 2011 was 8.3%, which exceeded the period's median 8% assumed rate of return.

However, recent changes in economic conditions are causing many public plans to reconsider their investment return assumption. Since fiscal year 2008, 45 public pension funds have lowered their investment return assumptions.

According to NASRA's Public Fund Survey, while the predominate investment return assumption remains 8.0% for the 126 plans surveyed, it drops to an average of 7.68% when weighted by plan assets. In addition to presenting data related to public pension plans' actual investment experience, the brief also discusses how the investment return assumption is established and how it should be evaluated. The assumption is established through a process that considers economic and financial factors; the plan's liabilities; and the plan's asset allocation, which reflects capital market assumptions, risk tolerance and projected cash flows. Additionally, the brief identifies various factors that are considered by actuaries and plan fiduciaries when establishing and evaluating the investment return assumption. These factors include, but are not limited to:

- Current and projected interest rates;
- Current and projected rates of inflation;
- Historical and projected rates of return by individual asset classes; and
- The plan's historical investment performance.

The issue brief emphasizes that a governmental plan's investment return assumption is focused on the long-term, typically an investment horizon of 30 to 50 years. Investment returns are important because investment earnings account for a majority of the revenues for most public pension plans, which affects a plan's finances and actuarial funding level. According to the brief, since 1982, public pension funds have accrued an estimated $4.8 trillion in revenue. Of that amount, investment earnings account for $2.9 trillion (61% of the total), employer contributions account for $1.3 trillion (26%), and employee contributions account for $623 billion (13%). The brief also provides a table showing the investment return assumptions that are in use or announced for use as of June 2012 for the 126 plans included in the Public Fund Survey.

The brief is accessible at: http://www.nasra.org/resources/issuebrief120626.pdf

State stands pat on pension return assumption

By Michael Dresser, The Baltimore Sun, July 17, 2012

Declining to follow the footsteps of Baltimore County's pension plan, Maryland's state employee retirement system decided Tuesday to leave unchanged its assumption about how much it will earn on investments.

The 14-member pension board voted 11-1 to keep the rate at 7.75 percent, in the middle of the pack for public retirement plans nationwide.

By keeping the rate where it has been for almost a decade, Maryland will avoid the roughly $12 million gap that a change might have created in next year's state budget. But the board agreed to change several other assumptions — regarding longevity, turnover, salaries and other matters — that could force Gov.Martin O'Malleyto come up with twice that amount for the state's contribution toward pensions for state employees, public school teachers and law enforcement officers.

Among the range of choices presented to the board by its actuaries and investment consultants was one that would have cut the projected rate of return to 7.5 percent immediately. Other choices would have lowered the rate in stages to 7.5 percent or 7.55 percent.

State Treasurer Nancy K. Kopp, who chairs the board, said the decision reflected the trustees' best judgment of how the plan's investments would perform over a 25- to 30-year period. She said the board would revisit the issue next year.

"It honestly was a question of what we think was the most reasonable rate based on our history," she said.

Some conservative critics have contended that Maryland's assumed rate of return has long been too high. Christopher Summers, president of the Maryland Public Policy Institute, said the current assumed rate is "pie-in-the-sky." He said he would feel more comfortable had the board set it around 7 percent.

Last week, Baltimore County's pension plan decided to slash its expectations from 7.875 percent to 7.125 percent – a drastic change for a public retirement system.

The assumed rate of return is the percentage growth in investments that a pension plan projects it will earn over an extended period. It is not intended to be a specific target for any given year because of the volatility of financial markets. It is used to calculate the amount of money the state must kick in each year as the employer's contribution.

Maryland's plan has essentially matched the 7.75 figure over 20 years and exceeded it over 25 years. But the past 10 years have been a tough period for retirement plans because of the 2008 stock market debacle and the prolonged recession that followed. In response, many plans have cut their assumptions for the future. Many others, however, have kept the assumed rate at 8 percent or higher.

The county plan made its move after receiving information about the system's expected earnings from its actuaries and consultants, but the state trustees did not receive the same advice. The state's advisers told the board that either dropping to 7.5 or staying at 7.75 percent would be reasonable.

By staying at 7.75, the trustees put less pressure on the state budget than they would have had they cut the assumed rate to 7.5 percent. However, the demographic changes they adopted will add $24 million to the presumed taxpayers' contribution in the next state budget — rising to $311 million over a five-year period.

The demographic changes, which are documented in a study by a state consultant, are less of a judgment call than the rate-of-return assumption. They reflect such changes as the longer life spans of plan participants, less turnover in covered jobs and higher merit raises.

Kopp said the trustees essentially had a fiduciary duty to adopt the new demographic assumptions, while the rate-of-return decision was a judgment call.

The only dissenter on the rate-of-return vote was David S. Blitzstein, one of O'Malley's appointees. State Comptroller Peter Franchot, the vice chairman, was on vacation.

The vote occurred without much debate, and trustees at the meeting did not explain their decision. Through a pension system spokesman, Blitzstein declined to say why he voted no. Kopp said the decision was a product of extended discussion among trustees over the previous three months.

The treasurer said she had not spoken with the governor about the decision. "We're not being told what to do by the politicians," she said. "When they put on the hat of a trustee, they become trustees and vote that

More state pension plans cutting assumed return rates

By: Hazel Bradford , Pensions & Investments, Published: July 23, 2012

Buck Consultants' David Driscoll: Public plan executives "are at a point where they need more than 50% of their surprises to be pleasant ones."

Public retirement systems increasingly are taking a more conservative approach toward return assumptions in light of weak market performance and strapped public budgets.

"The need to balance long-term considerations with short-term considerations has led to a certain degree of conservatism" when it comes to assumed rates of return, said David Driscoll, a principal with Buck Consultants, Boston, who works with many public plans. Public plan executives "are at a point where they need more than 50% of their surprises to be pleasant ones."

Among recent moves:

- The $1.96 billion Baltimore County Employees' Retirement System, Towson, Md., on July 10 lowered its rate to 7.25% from 7.875% after seeing its funding level drop to 77.3% last fiscal year.
- California Public Employees' Retirement System, Sacramento, with $229.8 billion, voted in March to drop its rate to 7.5% from 7.75%; and
- California State Teachers' Retirement System, West Sacramento, in February dropped the rate on its $150.6 billion pension fund to 7.5%, after previously lowering it to 7.75% from 8% in 2011.

Early adopters

Other plans took action earlier.

The $53.6 billion Virginia Retirement System, Richmond, has dropped its return assumption twice since 2005, and "we are now at 7%," from 8% in 2005, said spokeswoman Jeanne Chenault. "It reflects the board's belief that the outlook for economic growth and equity returns will be muted as a result of economic issues globally."

The $147.2 billion New York State Common Retirement Fund, Albany, lowered its rate to 7.5% from 8% in 2010.

Still, not everyone is on the bandwagon.

The board of the $36.3 billion Maryland State Retirement & Pension System, Baltimore, came close to changing the system's assumed rate during a July 16 meeting but decided instead to change demographic assumptions about payroll growth, retirement and benefit withdrawal rates and other factors. That decision will add nearly $25 million in employer contributions next fiscal year and $311 million over five years, but less than the $28 million and $372 million, respectively, that a rate drop to 7.5% from the current 7.75% was projected to cost.

The board discussed the return rate often in recent meetings, reviewed all its assumptions and considered what peer plans were doing, but “in the end, the conclusion was that sticking at 7.75%, based on 3% inflation was clearly within the appropriate actuarial bounds,” said Nancy Kopp, state treasurer and board chairwoman.

By comparison, assumed rates of returns among corporate pension funds have been declining since their peak of 9.17% on average in 2000, according to Howard Silverblatt, senior index analyst with S&P Dow Jones Indices in New York. At year end 2011, the average rate was 7.6%.

“The rate of return is becoming more realistic. It's a very slow acknowledgement that returns are not as high as they used to be,” Mr. Silverblatt said in an interview.

43 act since 2008

Of the 126 public plans in the National Association of State Retirement Administrators' Public Fund Survey, 43 have reduced their investment return assumptions since fiscal year 2008. The predominant rate is 8%, but that drops to 7.75% when weighted by asset size, with larger plans having lower return assumptions.

Long term, the public funds have weathered economic downturns and negative investment returns well enough to exceed their assumed rates of investment return, according to the NASRA survey, which found a median annualized investment return of 8.3% for the 25 years ended Dec. 31, 2011.

But shorter term - and volatile — results are keeping return assumptions under the microscope. NASRA found that for 2011, the median return rate was 0.8%. For the three years ended Dec. 31, the median was an annualized 11.4%, and for the five years, an annualized 2%.

While it has been some of the biggest funds, such as CalPERS, taking the lead in lowering rates, plans of all sizes are feeling the pressure.

Even though Baltimore County officials will have to find an estimated $15 million in next year's budget to pay for the larger contribution the lowered rate creates, “we felt it was so important to do,” said Keith Dorsey, the county's budget and finance director and secretary of the retirement system's board.

“We've been thinking about it for a while. We've been trying to lower our overall retirement costs, but returns were not meeting our valuation rate,” he said. The fund had a -1.8% return in 2011 and an annualized 11.8% for the three years.

In Florida, an asset allocation analysis by the State Board of Administration “does not refute the possibility of lowering” the 7.75% assumed rate of return when officials overseeing the $122.8 billion

Florida Retirement System and other retirement funds gather this fall for their annual actuarial conference, said spokesman John Kuczwanski. He said revisiting the rate is a frequent topic of conversation. It "is a component of what we look at in our asset allocation study, which we look at every year to build our (FRS) portfolio."

New public accounting rules that highlight unfunded liabilities are likely to increase the downward pressure on rate assumptions. "I think it's going to put more rigor into how plans come up with these rates, and that's good," said Donald Fuerst, senior pension fellow at the American Academy of Actuaries, Washington.

But public plans have other assumptions to consider, such as changes in wages and tenure, or whether they can find enough cash to make up the difference when a lower rate pushes up contributions. Policymakers don't want to pass the bill onto future generations or make the problem too unwieldy, but they also don't want to tie up too much taxpayer money with a rate assumption that is too high.

"You have to take out the politics and the sentiment," said Olu Sonola, a senior director with Fitch Ratings Ltd.'s credit policy group in New York. "That's why you have actuaries. This is a very tough debate and the answer is somewhere in the middle. We seem to have entered an era of crises, and it makes sense to be conservative."

Original Story Link: http://www.pionline.com/article/20120723/printsub/307239982

Public pension funds to face calls to set realistic targets

Mon, Jul 23 2012, By Jilian Mincer

NEW YORK (Reuters) - Public pension funds are expected to report poor annual returns in the coming weeks, results that are likely to increase calls for more realistic retirement promises for teachers, police officers and other public workers.

At least three of the nation's largest U.S. public pension funds have already announced returns of between 1 percent and 1.8 percent, far below the 8 percent that large funds have typically targeted.

The fund's targets have been "unrealistic," said Michael Lewitt, a portfolio manager at Cumberland Advisors in Sarasota, Florida. "They've been fooling themselves because there is no realistic case they can make that."

The euro zone debt crisis, record low interest rates and weak growth across the globe made the last year a meager one for financial investments in general. U.S. public pension funds were no exception.

Low returns will further aggravate funding shortfalls for hundreds of pension plans, adding to pressure on cities, counties and states that are already facing lower tax revenue and rising costs.

The vast majority of states have cut pension benefits or increased contributions from workers, or are trying to.

"Failing to understand the scope of the pension crisis sets taxpayers up for a bigger catastrophe in the future," said Bob Williams, president of free-market think-tank State Budget Solutions, in Washington.

"Without government action, states, counties, cities and towns all over America will go bankrupt," he said.

In recent weeks, two cities in California sought protection from creditors. A third, San Bernardino, will follow suit soon and others such as Compton are considering the option.

In other states, from Michigan to Pennsylvania, cities such as Detroit and Scranton are struggling to make ends meet.

Last week the $233 billion California Public Employees Retirement System, the biggest U.S. public pension fund, reported a 1 percent return on its investments for the year ended June 30, way below CalPERS' 7.5 percent target.

That assumed rate of return was cut earlier this year from 7.75 percent, a reduction some critics said was too timid.

Similarly, the $150.6 billion California Teachers pension fund, or CalSTRS, earned only 1.8 percent. Various New York City pension funds reported an annual return of 1.7 percent.

A better performance was reported by the $150.3 billion New York State pension fund, which closed its fiscal year at the end of March with an almost 6 percent return, helped by an earlier end to its financial year, sparing it recent market losses.

Florida's state workers pension fund, which has an estimated net asset value of $123.7 billion, is due to report in the next two weeks. Hundreds of other, smaller funds are also scheduled to announce results for the 2012 fiscal year soon.

"Fitch expects numerous systems to report similarly disappointing returns. This is likely to further pressure pension systems' funded ratios and lead to higher annual contributions for state and local governments," said the rating agency in a statement last week.

6 PERCENT IN THE LAST 10 YEARS

Major public pensions typically assume an average return of about 8 percent, but the median annual return in 2011 for large pension funds was roughly half that amount, 4.4 percent, according to data provided to Reuters by Callan Associates.

Median returns were only 3.2 percent for the last five years and 6 percent for the last 10.

Before the 2007-09 recession, market performance was often above the 8 percent assumptions. Average returns for the last 20 or 25 years as a whole still reach that level.

But with losses in 2008 and 2009 and uneven returns since then, analysts say pension funds should adjust to what seems to be a new reality.

Weak returns for fiscal 2012 are likely to push averages even lower, widening the gap with long-term expected rates used for life-long estimates.

Pension funds use the expected return targets to discount their future liabilities for employees whose future benefits are pre-defined. While lower projected returns would be more realistic, states and local governments have been reluctant to change because it would require already financially strained states and municipalities to increase contributions or decrease benefits.

SLOW PROCESS

The funding status of public pensions has dramatically slipped over the last decade.

Barely more than half were fully funded in 2010. At the end of that year, the gap between public sector assets and retirement obligations had grown to $766 billion, according to a report by the Pew Center on the States.

Ratings agency Moody's Investors Service calculated this month that if it used a 5.5 percent discount rate, a rate closer to the way private corporations value their pensions, it "would nearly triple fiscal 2010 reported actuarial accrued liability" for the 50 states and rated local governments to $2.2 trillion.

Other estimates put the shortfall even higher. State Budget Solutions estimated it in a recent study at $4.6 trillion as of 2011.

Some pension funds, such as CalPERS, have begun to lower their assumptions. New York's state pension fund, one of the best funded across the nation, lowered to 7.5 percent its projected rate of return in 2010.

Earlier this month, Baltimore County's employee pension system lowered its projections to 7.25 percent from 7.875 percent.

"The fact that (pension funds) are moving means they're concerned," says Alicia Munnell, director of the Center for Retirement Research at Boston College.

She thinks that for planning purposes 6 percent would be more realistic.

"But states and localities have not really recovered from the Great Recession. In this environment everything needs to go slowly," Munnell said.

Long-time Frame of Investment Return Assumptions

by Ady Dewey

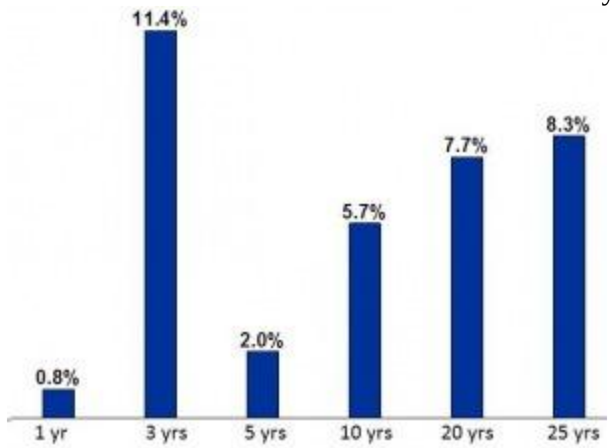
The investment return assumptions of public retirement systems tend to be a bull's eye for critics, drawing charges that the assumptions range from unrealistic to smoke and mirrors.

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.

Indiana cuts return assumption to lowest among big public plans

By: Barry B. Burr , Pensions & Investments, Published: August 2, 2012

(Updated at 2:25 PM EDT) Indiana Public Retirement System, Indianapolis, adopted the lowest investment return assumption of any major public plan, lowering it to 6.75% from 7%, according to a statement the fund released last night.

The state also plans to transfer $360 million from its $2 billion in reserve assets to bolster the pension plans the $25.6 billion INPRS oversees. That transfer is in addition to expected pension contributions of $2.3 billion in the current fiscal year.

INPRS is the first among the 126 largest public retirement systems to drop its assumed rate below 7%, said Keith Brainard, research director of the National Association of State Retirement Administrators.

On the rate cut, Steve Russo, INPRS executive director, said in the statement. “This is a prudent move by our board to recognize potential long-term global market realities. The risks and consequences of assuming a too high rate of return justify a conservative approach to this and other actuarial assumptions.”

The INPRS actual investment return for the combined defined benefit assets was an annualized 5.74% for the 10 years ended June 30, Jeff Hutson, chief communications officer, said in an e-mail.

“There is no expected change to the asset allocation,” because of the rate cut, Mr. Hutson wrote in the e-mail. “The lowering of the assumed rate reflects the latest return expectations of the current asset allocation.”

Of the seven plans it oversees, INPRS expects the rate cut will affect only the $12.24 billion Indiana Public Employees Retirement Fund. The reduction is expected to raise PERF contributions by 0.7%, Mr. Hutson said in the e-mail.

Strategic Investment Solutions, INPRS' investment consultant, and actuarial consultants PricewaterhouseCoopers and Nyhart assisted in the retirement system's analysis of its long-term investment return assumption, which has a horizon of eight to 10 years, Mr. Hutson said in the e-mail.

As of June 30, INPRS' allocation was 25.2% public equities, 24.2% fixed income, 13.3% private equity, 10.6% inflation-linked fixed income, 7.9% commodities, 7% risk parity, 6.3% absolute return strategies, 4.7% real estate and 0.8% cash.

Little-known U.S. board stokes hot pension debate

Tue, Jul 10 2012, By Nanette Byrnes

(Reuters) - The feedback was swift and often scathing when a little-known public board signaled its intent to toughen the accounting rules governing state and local pension funds of millions of U.S. public employees, intensifying worries over a shortfall of billions of dollars.

The plan by the Governmental Accounting Standards Board (GASB) - which was approved on June 25 - drew praise from the American Institute of Certified Public Accountants and from investors looking for transparency in the $3.7 trillion municipal bond markets.

But not so from the likes of Kevin Lillie, treasurer of the Geneva, Ohio area schools district, one of more than 700 letter writers, who asked: "How do you people come up with these things?" He was not alone in his incredulity.

For some states and municipalities the new rules, taking effect in 2013 and 2014, mean acknowledging that pensions for police, firefighters, teachers and other municipal workers are woefully underfunded liabilities.

The public employees worry that could prompt calls for cutbacks at a time of immense financial pressures while advocates for conservative fiscal management say that's precisely what's needed.

The accounting overhaul was a rare foray into the public eye for GASB, a 28-year-old body that shares offices in Norwalk, Connecticut with the far more powerful Financial Accounting Standards Board (FASB), its older brother and the standard setter for private and publicly traded companies and not-for-profit organizations.

In a letter to GASB, Congressmen Gerald Connolly of Virginia and Edolphus Towns of New York called the proposals arbitrary and destructive. Boston College pension expert Alicia H. Munnell wrote that GASB's planned method for valuing pension liabilities "makes no sense at all."

Withdraw the proposal entirely, urged the Lubbock Texas Fire Pension Fund.

GASB listened. Board members read the letters. Staff tallied them in a spreadsheet. The board flew around the country holding public meetings and collecting people's thoughts.

Then the board's seven members - many of whom work day jobs in local and state governments themselves - went ahead and approved the rules, without changing many of the most controversial elements. "This is not a democratic process," said a person close to the board. "The board is not Congress. It looks at the fundamental underpinnings of the issues."

RADICAL CHANGES

In one unanimous vote GASB set in motion changes, termed radical even by supporters, that will force many of the worst-off state and local governments to acknowledge much bigger pension shortfalls as liabilities on their balance sheets, while no longer requiring information about how well they are funding those promises. The rules will add volatility to the funds by eliminating the "smoothing" of their liabilities over time, and will impose new accounting costs on already strapped governments.

The new GASB rules don't alter what's owed, but will make some dramatic changes to the accounting value of liabilities.

Underfunded pension plans will no longer be able to use the projected rate of return on their investments, currently about 8 percent, to value all their liabilities. Instead, any unfunded promises will have to be valued at a far lower rate, close to what it would cost them to borrow the money to cover that debt.

This hybrid plan - which uses one rate for funded liabilities and another for the unfunded ones - will make the most poorly funded plans' liabilities look far larger because the lower the discount rate used to evaluate those liabilities, the higher the present value of the amount owed by local governments.

The new pension math won't exactly mirror how corporations handle these calculations, but will bring the governments' numbers a step closer to the more conservative figures of the private sector.

Pension supporters fret that these on-balance sheet liabilities will be misunderstood as current obligations and add to the tension between funding these promises to police, firefighters, teachers and others, and spending on public services.

Fiscal conservatives say it's high time the real cost of what they see as overly generous public sector pensions is recognized, and warn that these pensions are unsustainable.

CHILDREN OF A LESSER GOD

Begun six years ago as a routine review of existing accounting rules, the pension accounting revamp came to a head at a time when sharp investment losses of the late 2000s, declining contributions from cash-strapped governments, and a rising number of retirees have made questions about their sustainability front-page news.

"That sure raised the level of awareness," GASB Chairman Robert H. Attmore said in an interview, though he maintained that in the end the public debate over pensions did not shape the board's rules.

Founded in 1984, at a time when government bookkeeping came under criticism for not being more like that of business, GASB operated largely under the political radar. While tasked with setting standards, GASB had little in common with FASB, founded 10 years earlier.

FASB has an annual budget of $39 million, a fulltime board of seven, and a chairwoman, Leslie Seidman, who was paid more than $760,000 in 2010, the most recent year for which filings are available.

By contrast, six of GASB's seven board members work part-time, the board has a budget of $8 million this year, and Chairman Attmore, who draws a pension from New York state where he spent 17 years as auditor, made $424,000 last year. The board members are all knowledgeable of government finance and appointed by a nonprofit professional board rather than a political one.

RUBE GOLDBERG MACHINE

Up until this year, when a congressionally mandated fee on brokers took effect, GASB had no permanent funding, relying entirely on voluntary contributions and subscriptions to fund its expenses.

GASB explains the budget gap as stemming from the board's part-time status as well as its lighter workload. GASB, which has a total of 68 accounting standards, approved two new ones last year, while FASB penned 12 to bring its total to 226.

From bankrupt Stockton in California to financially strapped states such as Illinois and Rhode Island, the pressures stemming from pension promises are a constant worry, shared by officials in small and large local governments.

Accounting professionals are split on whether the new rules are a step in the right direction.

Paul Angelo, a senior vice president for the Segal Company, one of the largest actuarial firms in North America, calls the new rule a "perfectly nuanced solution to a difficult question."

Though liabilities will be marked higher for many, economists and actuaries, who yearned for a system closer to the corporate model, say they are not high enough. Given that promises made to public staff are often ironclad in state laws and that future payments must be guaranteed, a cautionary approach would suggest a discount of all those liabilities at a "riskless" rate similar to the borrowing costs of the U.S. Treasury, they argue.

By instead endorsing a two-pronged approach, the board has built a machine that performs a simple task in a complex fashion, counters New York actuary Jeremy Gold, who would favor the use of one low rate: "GASB has built a Rube Goldberg machine filled with complexity." Governments may like GASB's hybrid model better he said, but future taxpayers will bear the burden.

Devin Nunes, a California Republican member of the U.S. House of Representatives, agrees. "Did GASB do enough? No, I do not think the reforms are adequate to protect taxpayers or retirees," he wrote in an email to Reuters.

Nunes has sponsored legislation in the House, which he hopes to reinvigorate after November's election that would sidestep GASB's rules, requiring governments to use a more conservative calculation of liabilities if they wish to issue tax-free bonds.

UNCERTAIN IMPACT

Until the new math kicks in, it's hard to know how much difference it will make. Even under the old rules, the Pew Center on the States estimated that states were short $757 billion on their pension promises.

A July 2 report by ratings agency Moody's Investors Service calculated that if it used a 5.5 percent discount rate, a rate more conservative than the method GASB proposed in its final rules, but closer to the way corporations value their pensions, it "would nearly triple fiscal 2010 reported actuarial accrued liability" for the 50 states and rated local governments to $2.2 trillion from $766 billion.

Next GASB will tackle accounting for other post-employment benefits such as retiree healthcare plans - this despite complaints from governments that they're struggling to keep up with the board's quickly changing standards.

Attmore said that he was sympathetic to the pressures on government finance departments, but that GASB had no plans to slow down.

"If we do our job well, it should make things better and give policymakers and others making tough choices about cutting resources better information to make those decisions," he said.

Pennsylvania Cut to Aa2 by Moody’s on Pension Concerns

By Romy Varghese - Jul 16, 2012 , BLoomberg

Pennsylvania had its general- obligation debt rating cut a step to Aa2 by Moody’s Investors Service, which said rising pension liabilities will weigh on the state’s economic recovery.

The grade, Moody’s third-highest rating, also reflects moderate economic growth and the state’s relatively high debt level, according to a statement today from the New York-based company. Moody’s also changed its outlook for the credit to stable from negative.

“Large and growing pension liabilities and moderate economic growth will challenge the return to structural balance, contributing to a protracted financial recovery,” Moody’s said in the statement. The state’s financial position deteriorated in fiscal 2012, according to the company, which said Pennsylvania probably will borrow to cover its cash-flow needs in 2013.

Republicans who lead the Legislature in Pennsylvania, considered a swing state in this year’s presidential election, passed a $27.7 billion budget for 2013, which began July 1. The spending plan signed by Governor Tom Corbett, also a Republican, cut business taxes and eliminated a general-assistance program for the poor and disabled.

Eric Shirk, a Corbett spokesman, didn’t immediately respond to a telephone call seeking comment on the downgrade.

Yield Spread

Investors demand higher yields to hold state bonds. Ten- year Pennsylvania general-obligation debt had a yield of 0.56 percentage point more than top-rated municipal securities of similar maturity on July 13, the most since Oct. 6.

“It’s a bit of a wake-up call that pensions really count,” said Alan Schankel, director of fixed-income research at Janney Montgomery Scott LLC in Philadelphia. While Pennsylvania joined other recession-racked states in failing to make full pension contributions, “you have to pay the piper at some point,” Schankel said by telephone.

Neither of the Keystone State’s two retirement systems have enough assets to meet projected liabilities, according to recent financial reports.

The Pennsylvania State Employees’ Retirement System had 65 percent of what it needed as of December 2011, down from 75 percent a year earlier, according to a financial statement released May 31. The Pennsylvania Public School Employees’ Retirement System reported Jan. 31 that it had 69 percent of the assets it needed as of June 30, 2011.

New Pension Reporting Challenges

The Governmental Accounting Standards Board (GASB) has issued new standards for how state and local government employers should account for pension benefit costs. Significantly, the calculation of the employer pension expense will no longer be related to the employer funding requirements.

In the absence of GASB standards, employers and other interested parties will need an alternative method to calculate and report the annual required contribution. Without objective, reliable data that is consistently reported, there would be considerable public confusion and the potential for patchwork or Congressional “solutions.” Policy makers, employees, and the general public need assurances that public sector benefits are properly funded.

National Associations Take Initiative

Recognizing the need for action, the “Big 7” (National Governors Association, National Conference of State Legislatures, Council of State Governments, National Association of Counties, National League of Cities, U.S. Conference of Mayors, and the International City/County Management Association), established a pension funding task force. In addition to representatives from the Big 7, the National Association of State Auditors, Comptrollers and Treasurers, Government Finance Officers Association, National Association of State Retirement Administrators, and National Council on Teacher Retirement serve on it. The Center for State and Local Government Excellence is the convening organization for the task force.

The task force is looking closely at the actuarial community's work (in progress) and plans additional outreach to a variety of experts and organizations in the months ahead. The goal is to have accepted and recommended funding practices in place by the time the new GASB accounting standards are implemented.

Pension Funding Task Force Role

1. Develop recommended funding standards and practices
2. Identify a method for voluntary compliance with the recommended standards and practices

Pension Funding Background

State and local pension plans were commonly funded on a pay as you go basis through the 1970s. This practice drew wide criticism. State and local officials took steps to manage pensions in a more business-like way. They also were prodded into action by new accounting and reporting standards issued by GASB in 1986.

The trend to improve pension funding continued over the next decade. When GASB issued Statements 25 and 27 in 1994, employers were required to include information on plan assets, liabilities, and plan net assets in their financial reports. Pension plans also had to report their annual required contribution (ARC) and what percentage of the ARC the employer paid. GASB defined the ARC to include the normal cost of pensions for today's employees plus a contribution to pay for any unfunded liabilities, typically amortized over a 30-year period. Paying the full ARC has been an important measure of whether or not a pension plan is on track to fund its pension promises.

By the turn of the Century public pensions were as well funded as private pensions. Most public plans were nearly 100 percent funded in the year 2000. Unfortunately, the last decade of economic upheaval and the wide swings in the stock market have reduced pension assets in both public and private plans.

In 2011, the estimated aggregate ratio of assets to liabilities has slipped to 75 percent[1]. State and local officials have again taken steps to strengthen pension funding. According to the National Conference of State Legislatures, 43 states have enacted major changes in state retirement plans from 2009-2011. The most common change has been to increase employee contributions to pension plans or to establish a different level of benefits to newly hired employees. New hires might have to wait longer to become vested, receive a reduced benefit and/or retire at a later age.

General Policy Objections for Pension Funding

Governments should adopt a pension funding policy that adheres to these general policy objectives:

1. Base pension funding plan on actuarially determined contributions
2. Be disciplined about funding so that promised benefits can be paid
3. Maintain intergenerational equity

4. Manage employer costs are a consistent percentage of payroll
5. Have clear reporting that shows how and when pension plans will be fully funded.

Elements of a Pension Funding Policy

The actuarial community advocates that a well-designed funding policy address the actuarial cost method, asset smoothing method, and establish an amortization policy. The task force is examining each of these elements and intends to provide guidance on both accepted practices and recommended practices. The task force recognizes that any significant changes will require a transition period.

Moves to DC really about cutting retirees' benefits

By: Gary Findlay, Published: July 9, 2012, Pensions & Investments

The mantra of advocates of the switch to DC plans from DB is loud and consistent: “These changes need to be made to cut the cost of retirement benefits.”

Truth be told, these initiatives are not really about cutting cost — they are about cutting benefits, with lower cost being a byproduct.

Consider the following basic retirement benefit financing formula:

Benefits = Contributions + Investment Income - Expenses

This formula of B = C + I - E is equally applicable to defined benefit plans and defined contribution plans.

Now assume that individually managed asset accounts in DC plans can consistently earn the same return and for the same fees as professionally managed large pools of DB plan assets. Next, assume the administrative expenses associated with individually managed DC plan accounts are the same as the administrative expenses per person for large numbers of participants in DB plans. While these assumptions are unrealistic, they will facilitate understanding what happens when the “cost” of the plan is reduced by switching to a DC plan from a DB plan. Cost is represented by “contributions” in the formula above. If:

1) investment income net of fees (I) does not change,

2) administrative expenses (E) remain constant and

3) contributions (or costs) (C) decline,

4) the only remaining variable, benefits (B), has to be smaller.

In reality, net investment rates of return on individual DC accounts would logically be expected to be lower than the return on professionally managed DB plan large asset pools. Furthermore, administrative expenses for individual account plans would logically be expected to be higher per person than administrative expenses for DB plans. Even if the cost (contributions) remained the same after the switch to a DC plan, both of these realities would result in benefits being lower. If contributions (costs) are also lowered in connection with the switch, benefits become just that much smaller.

So, when you hear someone say they want to reduce costs by switching to a DC plan from a DB plan, just understand that what is really being said is that they want to reduce benefits and convert pooled risk to individual risk.

If the goal were to keep benefits approximately the same, it would be necessary to increase cost in connection with a switch to a DC plan from a DB plan.

It is certainly possible to overcomplicate this matter with bells and whistles and smoke and mirrors but, in the final analysis, it really is this simple.

Epilogue: It's probably worth noting that there are some who do stand to gain from a switch to DC plans:

Administrative service providers and asset managers will likely make more money;

Corporations won't have to put up with those pesky DB plans that vote their proxies; and

The federal government will collect much more in premature distribution taxes.

These might not be intended consequences but they are consequences just the same. n

Gary Findlay is executive director of the Missouri State Employees' Retirement System, Jefferson City.

Hybrid Pension Plans Attracting More States, Cities

Unable to continue making payments on traditional retirement benefits, officials are trading in the old model and looking for a more efficient option.

BY: Carol Anderson | August 2012

Riled-up citizens in San Diego and San Jose, Calif., have spoken: This spring, they voted overwhelmingly to shrink retirement benefits for current city employees as well as new hires.

Fiscally worried state officials have taken action too. As of July 1, Rhode Island cut retirement benefits for all state workers, including retirees.

And crisis-wary legislators are working to preclude potential disaster. Last year, Utah’s legislators not only set up a hybrid for new employees, but also capped the state’s contribution to their defined-benefit plan. If the plan’s costs are higher than the cap, employees make up the difference.

There’s a public pension crisis out there. Defined-benefit (DB) plans -- the stalwart of public pension systems -- are in trouble, both financially and politically. The $757 billion in unfunded liabilities that the plans now carry are a threat to the well-being of states and localities and their taxpayers. Meanwhile, the private sector has been shedding its DB plans for decades, replacing them with defined-contribution (DC) plans in the form of 401(k)s. That has left those employees with pension envy. As voters, they are no longer willing to bankroll benefits for public employees that they no longer get themselves.

To address the growing problem, jurisdictions have implemented or proposed a number of changes. Some are revising the defined-benefit plan itself -- raising the retirement age or suspending cost-of-living adjustments. Some are looking at a more radical approach: doing away with the defined-benefit plan for new hires and offering them a defined-contribution plan only. But the middle ground -- and a trend that seems to be growing -- is to have a little of both: a defined-contribution plan backed up by a lower-level defined-benefit plan. Alternatively, some are opting for a cash balance program that combines aspects of both defined-benefit and defined-contribution approaches.

These are hybrid plans. While the trend may be fairly new, hybrids have been around for years. Indiana has had one since the 1950s. At last count, about a dozen states and a handful of cities have joined Indiana's ranks, offering their employees -- usually just their new hires -- hybrid plans.

The main impetus is to keep costs in check. States and localities see the unfunded liabilities of traditional defined-benefit plans as a threat to their budgets and credit ratings. If their employees had defined-contribution accounts instead -- a version of 401(k)-style plans -- they would eventually be relieved of that burden.

But a DC plan alone raises uncomfortable questions about retirement security for employees. Depending on how they are structured, DC accounts may have the same pitfalls as 401(k) plans have had in the private sector. Individuals are left to navigate the perils of the investing world on their own and could end up retiring in a down market, losing a big chunk of their nest egg. "We need to think of pensions not as wealth accumulation, but as old-age poverty insurance," says Keith Brainard, research director of the National Association of State Retirement Administrators.

It is a point Richard Hiller, senior vice president of the government market for the financial services organization TIAA-CREF, makes as well. In fact, Hiller objects to equating DC plans with 401(k)s in the first place. That "scares people who saw the losses suffered in 401(k) plans during the recession," he says. "But a properly designed DC plan should protect itself from those kinds of wild swings."

By "properly designed," he means one that provides a limited menu of low-cost investment choices that focus on generating adequate retirement income. Some of those choices would be annuities and life-cycle funds whose allocation changes over time as the member ages.

A proper DC plan also distributes income differently than a 401(k), he notes. Payouts can be designed to last for life rather than taken in a lump sum. In that way, it is "much more tightly designed to be a true retirement plan," Hiller says. Consequently, "the emphasis is on income replacement rather than on asset accumulation."

However well the DC plan is designed, there is still a need for a DB plan that provides a predictable level of retirement income -- albeit one that is less generous than today's traditional plans. Maintaining a DB plan as part of a hybrid plan is particularly important in the public sector, Hiller notes. "When the government is the plan sponsor, what you don't want is people getting to retirement without adequate assets -- then looking to the state to be their safety net."

A cash balance plan is an alternative to maintaining both DB and DC plans. It combines elements of both in a single plan. Like a traditional DB plan, contributions from employees and employers are pooled and professionally managed. But unlike a DB plan, the benefit is based on the amount accumulated in the account -- not on a formula based on salary and years of service. Members get a guaranteed rate of return, but it's likely to yield lower yearly payouts than a traditional DB plan. In effect, the cash balance plan eventually converts the savings in the individual's account into an annuity, with a minimum rate of return guaranteed by the employer. Though they are on the hook for guaranteeing the return, the cash balance approach greatly lowers future liability.

Nebraska, which started out with a DC plan for most state workers (teachers and some other public employees are in DB plans), switched to cash balance in 2003. The plan is mandatory for new hires and optional for existing employees.

Where some states see a cash balance plan as downsizing their pension plans, Nebraska "improved our benefit by going from a DC to a cash balance plan," says Phyllis Chambers, who runs Nebraska's Public Employees' Retirement System. For Nebraska, cash balance is a necessary improvement over the straight DC system.

"Cash balance offers a good, stable retirement income with a guarantee," Chambers says, "so nobody's benefit goes down." After all, investing is not only tricky -- even for the expert -- it also leaves the person about to retire at the mercy of the market. With a DC "it's all about timing," Chambers points out, and timing was terrible for workers who wanted to retire in 2008-09. A number of Nebraska's DC members were forced to postpone retirement, Chambers says, because their account values had plunged by half. But that didn't happen to participants in the cash balance plan who receive a guaranteed 5 percent minimum return. When investment returns are above 5 percent (as they were for the first five years of the plan), members get a dividend. When returns drop below 5 percent (as in recent years), the state makes up the difference.

Even with the state on the hook for that guarantee, it adds up to a much lower potential liability than the teacher's defined-benefit plan. In order to meet those payouts now and in the future, the pension plan operates on the premise of an 8 percent assumed rate of return. When the portfolio doesn't meet that return, the shortfall becomes an obligation of the state.

All in all, Chambers says the cash balance form of a hybrid plan has worked out well for fiscally frugal Nebraska. Recently Louisiana and Kansas decided to follow suit and adopt cash balance plans for future employees.

Most hybrids are so new that it's hard to tell how well or poorly they're working -- especially since they apply only to new hires in most states.

But Indiana has a long hybrid history. Its combination plan has changed little since its inception in 1955. It includes a modest DB component funded by the employer. On the DC side, employees (alone or in combination with the employer) must contribute at least 3 percent of their salary, with the option to kick in more. Employees, who also participate in Social Security, choose how to invest the DC funds from a limited number of options and assume the investment risk.

There is one unusual feature to the lineup of investment options available to employees: They can opt to invest their money with the state's defined-benefit portfolio. "They get what the DB portfolio earns, and that is a higher rate of return than they could get in any other plan," says Teresa Ghilarducci, a former public trustee with the Indiana fund (and currently chair of economic policy analysis in the Department of Economics at The New School for Social Research).

Although the system is healthy (the plan is 81 percent funded), the state wants to add a non-hybrid, DC-only option for new state employees. The state's objective, according to Steve Russo, executive director of Indiana's public employees' retirement fund, is to improve the management of risk and offer workers more choice. "We're keeping an eye on the future," Russo says. "We're trying to prevent a crisis so we don't have to act out of desperation."

Under the proposed DC-only option, the state would contribute funds into each employee's account equal to what would have gone into the DB portion of the hybrid. But members would assume all the investment risk and there would be no DB backup. New hires may prefer the DC-only option, Russo says, because the existing DB piece has a 10-year vesting period.

One of the selling points of a DC-only option is to give employees more leeway in choosing plans and investment options. "Giving people a choice is always better," Russo says. "But along with that comes the obligation to educate them before they make those choices."

He is referring to helping new employees choose between the state's current hybrid plan and the optional DC-only plan that the state hopes to implement. But the "obligation to educate" also applies to helping workers in a DC plan figure out how to invest.

As officials in Nebraska can attest, many employees are unsophisticated in that department and often make inappropriate or poor choices. Plan administrators can't dispense investment advice, so they may work with financial professionals by arranging seminars, webinars and individual counseling sessions as well as by providing general information in print and on websites.

The education effort is uncharted territory for many systems that are just getting started with the DC component of their plans. "It's so new -- that's part of the problem," says David Daly with the National Pension Education Association. "Everybody's trying to decide how to handle it." To that, Daly adds that educating members "is something we'll certainly be looking at as more systems switch to hybrids and DC plans."

Ready or not, like it or not -- hybrids are coming. Many state and local officials consider them a decent -- even good -- compromise for sharing the pain of the current era.

Defined Benefit Criticisms are Based on a Misinterpretation of Funding

by Ady Dewey

PensionDialog welcomes the following guest post by Victoria Hubbell of the Healthcare of Ontario Pension Fund.

These days, it's hard to read an article about traditional defined benefit pension plans that doesn't deal with funding — whether in the U.S. or in Canada. Yet pension plan funding is not as straightforward a concept as it may appear.

When people talk about a pension plan being underfunded, they mean that there's a shortfall in the plan's assets. There's not enough money in that plan to pay every single member their full pension entitlement **that day**.

Traditional pension plans operate over a very long time horizon. A member may contribute for 30 years, and then draw a pension for 30 more. Only if the plan was to cease operations completely would everyone's benefit need to be paid out on a single day – a relatively uncommon scenario.

Many people incorrectly assume that if a pension plan is underfunded today, it means that there isn't enough money to pay people their pensions now. They might think – incorrectly – that a plan that is 80 percent funded can only afford to pay its current pensioners 80 cents on each dollar they are supposed to receive.

That's not the case. When a plan is 80 percent funded, pensions continue to be paid in full to retirees. However, the plan will need to take action to correct the shortfall, typically through raising contributions for members who are still working, or making changes to future benefits to return to fully funded status. It's like turning a big ship around – it takes time, but gradually, it can be done.

Critics of defined benefit plans like to point to shortfalls as a sign that the plan is not sustainable. But the economy moves in cycles. At the end of the 1990s, a booming economy had most defined benefit pension plans in surplus. Where were these critics then?

Generally, defined benefit plans have such large pools of money, versus the amount of money paid out in pensions during a given year, that there is sufficient time to address any shortfalls. As an example, the Healthcare of Ontario Pension Plan – a fully funded defined benefit pension plan that has no shortfall – has about $40.3 billion (Canadian) in assets. Our plan pays out $1.3 billion in pension payments each year.

As you can see, there is enough money in the fund to cover pension benefit payments for decades. And remember, members and employers continue to contribute to the plan each year – so new money is coming in, and being invested for the future.

Time is an ally in defined benefit plans because all contributions are pooled and then invested with a similar long-term investment horizon. The vast majority of every pension dollar paid out, in HOOPP's case, comes from investment returns.

Defined benefit pension plans have a significant economic impact. While Canada has yet to look at this specifically, the recent "Pensionomics 2012" report by the National Institute for Retirement Security shows that in the U.S., defined benefit pensions provide $1 trillion in total economic impact, creating 6.5 million American jobs.

There's no question that with traditional defined benefit pension plans, funding is an important concern that needs to be addressed – and is, over time. However, this same question of funding needs to be addressed in all retirement savings vehicles. Because with more and more individuals not being covered by traditional pension plans, greater transparency and knowledge are required to ensure that people will have enough to retire on when they need it.

The question of funding is an important one. But it should be asked broadly of all retirement savings programs.

Future Public Workers Will Pay More and Get Less

by Ady Dewey, Pension Dialog

As said many times in these pages, public employees – our teachers, water testers, nurses, land stewards, police, and so many others – too often find themselves under attack and being blamed for their salaries and most of all their retirement benefits.

For some government workers, it's creating a difficult atmosphere. Now as states and local governments continue to make changes to public retirement plans, a report released this week by the Center for State and Local Government Excellence outlines how the changes are largely affecting future employees:

Most states are legally constrained from reducing future benefits for current workers … These constraints make it difficult to adjust to changing conditions and to share the burdens of reform fairly between new and current participants.

Amy Monahan, a law professor at the University of Minnesota, agrees that it's easy to change retirement benefit programs for new employees.

Some may say it's about time – this is a path the private sector started down long ago.

Yet it's unclear how this may affect attracting skilled workers going forward. This was the topic of a recent article in Stateline:

But as state agency hiring has picked up after a long period of workforce reduction, some agencies are experiencing recruitment challenges for positions that require specialized skill sets. The situation has been further complicated in many states by high volumes of veteran workers eligible for retirement, cuts to salaries and benefits that were made during the recession, and a decline in the sense of job security and public service that have long been state employment's strongest selling points.

Despite what some may say about younger workers being more mobile, pensions remain important tools for employers to attract and retain qualified workers, in addition to promoting income security in retirement. Towers Watson noted the percentage of young workers in the private sector who cited their defined benefit (DB) pension plan as a reason for staying with their current employer jumped from 28 percent two years ago to 43 percent.

In a report by the National Institute for Retirement Security that analyzes seven state retirement systems that offer new employees a choice between DB and defined contribution (DC) plans, the DB uptake rate ranges from 98 to 75 percent. The percentage of new employees choosing DC plans ranges from 2 to 25 percent.

The meaningful reforms to strengthen public pension plans may come at a greater cost than many realize – not to be paid out of the wallets of us taxpayers, as many pension-naysayers are fond of saying, but in the quality of the services we rely upon in our schools, hospitals, and towns.

Michigan Legislature OKs partial overhaul of school retiree plan

Aug. 30, Lansing State Journal

The state Legislature on Wednesday completed a partial overhaul of the Michigan Public School Employees Retirement System that will mean higher costs for most school employees and retirees.

The state House approved the legislation in a 57-48 vote after the Senate approved it 21-16 earlier Wednesday. The version passed in the Senate was similar to one first approved by the House in July.

With the plan's unfunded liability estimated at close to $50 billion, "we are saving the retirement system for current and future retirees," said Rep. Jeff Farrington, R-Utica.

But Democrats accused the GOP majority of creating a false crisis.

"We've got folks who worked hard for the people of Michigan, who have earned a benefit ... and now we're talking about changing the rules in the middle of the game," said Rep. Jeff Irwin, D-Ann Arbor.

The complex plan, which now goes to Gov. Rick Snyder for his signature, would pre-fund retiree health care costs to reduce long-term liabilities by billions of dollars, give many school employees the option of making larger pension contributions or receiving reduced pensions and require most employees to pay 20 percent of their health care costs.

The plan, which is expected to save local school districts about $970 million over the next two years — also would eliminate retiree health care coverage for employees hired after Aug. 1 of this year. Instead, there would be a matching contribution of up to 2 percent of pay toward a 401(k)-type account.

It also calls for a study to be completed by Nov. 15 to examine the costs and benefits of closing to new employees the school retirement system — a hybrid system that combines elements of defined benefit and defined contribution pension systems — and moving to a defined contribution plan.

A strong sentiment in the Senate to move immediately to a defined contribution system led to the rejection of the House version of the bill in July.

But officials in the Snyder administration lobbied hard for the House version, saying there could be significant costs —– more than $1 billion in the short term — attached to moving immediately to a defined contribution plan.

State group challenges constitutionality of new Louisiana cash balance plan

By: Rob Kozlowski , Published: August 20, 2012, Pensions & Investments

The Louisiana Retired State Employees Association filed a lawsuit against the state of Louisiana, Louisiana Gov. Bobby Jindal and Louisiana State Treasurer John Neely Kennedy, claiming a new cash balance plan for state employees is unconstitutional.

The lawsuit, filed Thursday in the 19th Judicial District Court for the Parish of East Baton Rouge, contends that Act 483 creating the new cash balance plan is unconstitutional due to the state House of Representatives voting for its passage with less than a two-thirds majority.

The suit alleges that at least 70 representatives needed to vote for the bill for passage, and that the 68 votes it received on May 30 to move the bill to the Louisiana Senate was not sufficient due to Louisiana Constitution Article X, Section 29 (F), which requires a two-thirds majority "to enact benefit provisions for members of any public retirement system which have an actuarial cost," according to a news release.

"We don't think the bill was passed in a constitutional fashion," said Frank L. Jobert Jr., executive director of the Louisiana Retired State Employees Association, in a telephone interview. "That is the predominant issue we're attacking."

The cash balance plan was signed into law by Mr. Jindal for selected employees hired on or after July 1 in the $13.7 billion Louisiana Teachers' Retirement System, the $9.3 billion Louisiana State Employees' Retirement System, and the $1.4 billion Louisiana School Employees' Retirement System, all of Baton Rouge

The law excludes members of the Hazardous Duty Services Plan in the Louisiana state employees pension fund and excludes all but post-secondary teachers and school employees in their respective retirement systems.

Mr. Jindal's office did not respond to inquiries by press time.

Report: ConvertingTexas teacher pensions to 401(k) would be costly

By Kate Alexander, Stateman.com

Published: 8:51 p.m. Thursday, Aug. 30, 2012

Dropping the guaranteed pension benefit for Texas' future school employees would be costly, complicated and reduce benefits for retirees, according to a new study by the Teacher Retirement System of Texas.

The study, mandated by lawmakers last year, states that the $110 billion teacher fund can pay the benefits it owes through 2075 but will need additional contributions from the state or members to erase a $24 billion long-term funding liability.

That liability, however, would increase to $36 billion if new employees were closed out of the pension and instead received a retirement benefit akin to a 401(k), as critics of public pensions recommend.

The state would then need to find some way other than member contributions to pay off that liability, said Brian Guthrie, executive director of the Teacher Retirement System.

Even so, the critics say, they will continue to press for changes to the pension system during next year's legislative session.

"It will get a good look. There is a high likelihood that changes will be made," said Talmadge Heflin of the Texas Public Policy Foundation, a conservative think tank.

Lawmakers must ensure that the state's retirement offering "is a combination of the best buy for the employee and for the taxpayer," Heflin added.

Ted Melina Raab, legislative director of the Texas chapter of the American Federation of Teachers, said the facts don't support abandoning the current retirement structure but that he still expects a major fight next year.

The Teacher Retirement System and its pension plan "are very efficient and deliver modest benefits at an amazingly low cost," Melina Raab said. "Any move away from (a guaranteed pension) is one that is based on ideology and politics."

Texas' teacher pension fund is considered to be in relatively good shape, but pension crises in other states prompted Texas lawmakers to look into the sustainability of the state's major retirement funds.

The teacher fund report will be released to the public today. The Employees Retirement System of Texas will deliver its study next week.

The report offers no recommendations, but it does lay out the challenges of moving away from the guaranteed pension.

Eliminating the pension benefit would mean that most future school retirees would have no guaranteed retirement income because almost none of Texas' school districts participate in Social Security. The Austin school district is one of the few that does, however.

While the pension benefit is politically hot, the more pressing issue is the solvency of the fund that helps to pay for retiree health care. TRS-Care had been set to run out of money in 2015. But recent changes to the benefit plan could keep it afloat until 2017, when the shortfall is projected to be $1.2 billion.

The study lays out nine possibilities for extending the life of the health care fund, which serves more than 200,000 retirees and their families. Among the possible changes are raising the contributions from the state and school districts or creating health savings accounts for certain retirees to buy plans on the open market.

"All of the options are: Who is going to pay?" said Betsey Jones, the teacher system's director of health care policy and administration.

The Persistent Myth of the 401(k)

by Ady Dewey

Last week, the press, and some politicians, accused Governor Brown of California of falling short on his pension legislation for failing to include a 401(k)-style savings plan – a step that

…experts say would have an even larger impact on helping reduce the pension funds' long term shortfall, which some estimates put in the hundreds of billions of dollars.

This week, *Bloomberg Businessweek* is making a similar assertion regarding Texas:

Texas public pensions said moving away from traditional defined-benefit plans wouldn't shrink their unfunded liabilities, in contrast to money-saving steps to end lifetime guarantees by states from Rhode Island to Kansas.

Texas is right – and the "experts" in California, as well as *Bloomberg*, are failing to understand what unfunded liabilities are – the benefits already earned by current participants – and that adding a 401(k) plan does nothing to close a liabilities gap.

Matt Gun, a reporter with *Fundfire*, captured it succinctly last month in "Sound, Fury, and Opportunity: Target Rate Politics":

The gap must be closed with higher taxes, lower benefits, better returns or all three. If this year represents a "new normal," that leaves only the politically toxic options.

Mr. Gunn could also add higher employee contributions, for those states that allow them. The savings in Rhode Island, which is often referred to as a model, came primarily not from switching to a hybrid plan, but from cutting the benefit formula, raising the retirement age, and eliminating the cost of living adjustments (COLA).

There are no savings per se from adding a 401(k) plan; if anything, for some plans, there may be increased costs to administer it.

What adding a 401(k) can do is shift risk from the government employer to the participant. But there are other ways that public retirement systems are effectively sharing risk with employees.

It can also increase the unfunded liability. In Texas, it was reported that if new employees no longer participated in the Teacher Retirement System pension and instead their contributions were directed to a 401(k)-type account, the unfunded liability would increase from $24 billion to $36 billion.

A 401(k) option can be an element of an effective retirement plan, but to be clear, a 401(k) does not necessarily offer short-term cost savings nor does it reduce the unfunded liability. In other words, by itself, it is not a panacea it's often touted as being. When other considerations are factored in, such as the ability of employers to retain qualified workers; the ability of workers to retire before their ability to serve has declined; and the avoidance of employees from the rolls of those on public assistance, a 401(k) can, indeed have not just higher costs but also unintended and undesirable consequences.

California Legislature sends 'sweeping' pension reform to governor
By Steven Harmon sharmon@bayareanewsgroup.com San Jose Mercury

SACRAMENTO -- Delivering on Gov. Jerry Brown's campaign promise to reform the state's pension system, the Democratic-controlled Legislature sent him a bill Friday that will alter retirement benefits for public employees and save the state billions, though it will take years to see the results.

Though critics called it a small step toward tackling the runaway costs stressing state and local governments, the votes in both houses of the Legislature were overwhelming, handing Brown what could be a major success heading into the fall campaign.

"With strong bipartisan support, the state Legislature today passed the biggest rollback of public pensions in California history," Brown said in a statement. "This sweeping pension reform package will save tens of billions of taxpayer dollars and make the system more sustainable for the long term."

CALIFORNIA'S PENSION REFORM

Retirement age: Raises the retirement age to 67 from 55 for most new employees to get full benefits, and 57 from 50 for new public safety employees
New formula: Changes the formulas for new employees upon which benefits are calculated
Pension caps: Caps benefits for new public employees who make more than $110,100; or those who make more than $132,120 but don't get Social Security
Spiking: Eliminates pension "spiking," or inflating salary in the years before retirement to increase pension

Double dipping: Eliminates most double dipping, or drawing a pension while working another government job
Felons: Forbids felons from collecting pensions

Expect pension changes with Ohio legislators' vote

By Robert Wang , CantonRep.com staff writer Last update Sep 12, 2012 @ 02:26 PM

Most public employees in Stark County will have to work more years to qualify for pension benefits.

By 2015, most police officers and firefighters will have to contribute an additional 2.25 percent of their pay for their pensions.

And most government workers today — unlike current retirees — won't get annual automatic 3 percent cost-of-living increases in their retirement benefits.

The Ohio General Assembly is expected to vote today to approve these and several other major changes to take effect Jan. 7 for the five pension systems for all state and local public employees.

And in contrast to the rancor last year over Senate Bill 5, legislators are expected to approve the five pension bills by large bipartisan majorities, with the blessing of the unions.

Unions say they're backing the bills because they fear if they don't, their members will lose far more in the long term— health insurance coverage in retirement, which the systems aren't legally required to provide, and possibly the pension benefits. And at least, many retirees and those close to retiring generally will not be affected by the changes, with the exception of cuts in cost-of-living increases and health insurance benefits.

Union officials said they've analyzed the pension systems' finances and have confirmed the systems' claims that under current rules, they will be unable to pay all their pension obligations for the state-mandated 30 years and offer health insurance coverage. Retirees, many of them Baby Boomers, are living longer than past retirees. The pension funds' investment returns, especially during the 2008 financial crisis, have been disappointing. Contributions have declined or been flat due to layoffs of government workers and workers not getting raises.

And the cost of providing health insurance for retirees and their families have skyrocketed.

"Tough choices have to be made," said the American Federation of State, County, Municipal Employees Council 8's political legislative director Robert Davis. "It's not an easy pill to swallow, but we're willing to swallow it to sustain a pension system."

"There's going to be sacrifices that are going to be made to keep these systems healthy," said Mike Weinman, the director of government affairs for the Ohio Fraternal Order of Police. "Historically, police officers would retire and they would be dead within four to five years. It's not happening anymore."

He said the FOP endorsed the bills in response to a movement among some state legislators to convert the pension systems to a defined contribution system similar to a 401-K plan.

American Academy *of* Actuaries

ISSUE BRIEF

JULY 2012

Key Points

- Frequent unchallenged references to 80% funding as a healthy level threaten to create a mythic standard.
- No single level of funding should be identified as a defining line between a "healthy" and an "unhealthy" pension plan.
- Funded ratios are a point-in-time measurement. The movement or trend of the funded ratio is as important as the absolute level.
- Most plans should have the objective of accumulating assets equal to 100% of a relevant pension obligation.
- The financial health of a pension plan depends on many factors in addition to funded status—particularly the size of any shortfall compared with the resources of the plan sponsor.

The 80% Pension Funding Standard Myth

An 80% funded ratio[1] often has been cited in recent years as a basis for whether a pension plan is financially or "actuarially" sound. Left unchallenged, this misinformation can gain undue credibility with the observer, who may accept and in turn rely on it as fact, thereby establishing a mythic standard. This issue brief debunks that myth and clarifies how actuaries view funding levels for pension plans and how the funded ratio relates to the general idea of "soundness" or the "health" of a pension plan or system. The Pension Practice Council of the American Academy of Actuaries finds that while the funded ratio may be a useful measure, understanding a pension plan's funding progress should not be reduced to a single measure or benchmark at a single point in time. Pension plans should have a strategy in place to attain or maintain a funded status of 100% or greater over a reasonable period of time[2].

What a Funded Ratio Is and Is Not

The funded ratio of a pension plan equals a value of assets in the plan divided by a measure of the pension obligation. Confusion sometimes can result when the term "funded ratio" is used without a clear understanding of how the pension obligation is measured or whether some

[1]Please see Appendix: Development and Sample Usage of the "80% Standard."
[2]Only in unusual situations would a goal other than a 100% funded ratio be targeted. These might include nonqualified pension plans, legislated funding targets or special concerns that a plan sponsor has with setting aside assets equal to the full value of the pension obligation. Social insurance programs, particularly pay-as-you-go programs like Social Security, also do not have a goal of 100% advance funding.

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form of asset smoothing is being used. Actuaries use different methods to measure a pension obligation for different purposes. For example, the measurement of the obligation used to determine a contribution strategy is often different from the measurement used for financial reporting or estimating settlement costs. The context for a funded ratio is important; but a detailed discussion of the various reasons for or methods used to measure different types of pension obligations is outside the scope of this brief.

Actuarial funding methods generally are designed with a target of 100% funding—not 80%. If the funded ratio is less than 100%, contribution patterns are structured with the objective of attaining a funded ratio of 100% over a reasonable period of time.

While it is unclear when widespread use began, an 80% benchmark has appeared in research reports, legislative initiatives, and in the media as a dividing line between healthy and unhealthy plans. A 2007 Government Accountability Office (GAO) report on government pension plans identified 80% as a de facto standard, citing experts without attribution. Subsequent uses of the 80% level often cite the 2007 GAO report.

The Pension Protection Act of 2006 (PPA) limits benefit improvements, lump sum payments, and use of the funding balances based on an 80% ratio of assets to the PPA funding target. Also under PPA, multiemployer plans use 80% as a level below which stricter funding rules become effective. As a final note, credit rating agencies use various funded ratios, including 80%, as a general indicator of a public pension plan's financial health.

Identifying specific levels of funding as "too low" as PPA does is useful for some purposes (e.g., implementing benefit restrictions); but it does not follow that achieving or maintaining a funded ratio at some particular level should be considered healthy or adequate. A plan with a funded ratio above 80% (or any specific level) might not be sustainable if the obligation is excessive relative to the financial resources of the sponsor, if the plan investments involve excessive risk, or if the sponsor fails to make the planned contributions.

Just as being more than 80% funded does not assure a plan is adequately funded, a plan with a funded ratio below 80% should not necessarily be characterized as unhealthy without further examination. A plan's actuarial funding method should have a built-in mechanism for moving the plan to the target of 100% funding. Provided the plan sponsor has the financial means and the commitment to make the necessary contributions, a particular funded ratio does not necessarily represent a significant problem.

In addition, the funded ratio is a measure of a plan's status at one time. A plan that is responsibly funded easily can have its funded status vary significantly from one year to the next solely because of external events. Funded ratios should be looked at over several years to determine trends and should be viewed in light of the economic situation at each time. Higher funded ratios are to be expected following periods of strong economic growth and investment returns such as at the end of the 1990s. Lower funded ratios are to be expected after recessions or years of poor investment returns such as the economic downturn that began in 2008. Whether a particular shortfall affects the financial health of the plan depends on many other factors—particularly the size of the shortfall compared to the resources of the plan sponsor.

The funded ratio is most meaningful when viewed together with other relevant information. Other factors that might be considered in assessing the fiscal soundness of a pension plan include:

- Size of the pension obligation relative to the financial size (as measured by revenue, assets, or payroll) of the plan sponsor.
- Financial health (as measured by level of debt, cash flow, profit or budget surplus) of the plan sponsor.
- Funding or contribution policy and

whether contributions actually are made according to the plan's policy.

- Investment strategy, including the level of investment volatility risk and the possible effect on contribution levels.

Each of these factors should be examined over several years and in light of the economic environment.

Plan sponsors experience a variety of circumstances that could lead to funded levels that are less than 100% at any point. Volatile investment returns and interest rates, tight budgets, and benefit increases are some of the most important reasons why pension plans may be underfunded. The consequences of becoming underfunded include larger future contribution requirements, less security for participant/member benefits, and the potential that the current cost of pension benefits may need to be paid by future stakeholders (e.g., shareholders or taxpayers). All of these risks can be managed through appropriate benefit, funding, and investment policies.

Summary

A funded ratio of 80% should not be used as a criterion for identifying a plan as being either in good financial health or poor financial health. No single level of funding should be identified as a defining line between a "healthy" and an "unhealthy" pension plan. All plans should have the objective of accumulating assets equal to 100% of a relevant pension obligation, unless reasons for a different target have been clearly identified and the consequences of that target are well understood.

APPENDIX: DEVELOPMENT AND SAMPLE USAGE OF THE "80% STANDARD"

This appendix provides an overview of where use of the 80% funded "standard" has been observed, from academic to general media reports. Note that this is a small sample and by no means an exhaustive list and is provided for illustrative purposes only.

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- "A funded ratio of 80% or more is within the range that many public sector experts, union officials, and advocates view as a healthy pension system."

Pew Research Report, *The Trillion Dollar Gap—Underfunded state retirement systems and the roads to reform*, February 2010, http://www.pewstates.org/uploadedFiles/PCS_Assets/2010/Trillion_Dollar_Gap_Underfunded_State_Retirement_Systems_and_the_Roads_to_Reform.pdf

- "Many experts in the field, including the U.S. Government Accountability Office, suggest that a healthy system is one that is at least 80% funded."

Stanford Institute for Economic Policy Research, *More Pension Math: Funded Status, Benefits, and Spending Trends for California's Largest Independent Public Employee Pension Systems*, Feb. 21, 2012, http://www.cacs.org/images/dynamic/articleAttachments/7.pdf

- "None of the systems is at or above 80% funded, which is the conventional minimum funded ratio."
- "A plan is typically considered well-funded if its funded ratio is greater than 80%…"

Legislative references

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- "In addition, these changes allow all pension systems to reach an 80% funding ratio, which is the ERISA and Government Accountability Office standard for a healthy pension system."

General media references

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- "We need to be fiscally strong, we need to repair the damage that has been done by successive administrations in this state," [Connecticut Governor] Malloy said. "It is no honor to have the worst funded pension program in the country."

Malloy continued on to say, “What I actually aspire to is getting to an 80% funding as rapidly as we can and the fact that we can do that and save the taxpayers $6 billion is pretty important.”

Bloomberg, “Texas Teacher Pension Needs 21% Return to Keep 80% Funded Ratio,” April 19, 2011, http://www.bloomberg.com/news/2011-04-19/texas-teacher-pension-needs-21-return-to-keep-80-funded-ratio.html

- “The Teacher Retirement System of Texas needs an annual return of 21% in the year ending Aug. 31 to maintain an 80% funded ratio, the level actuaries consider adequate to cover liabilities, said its deputy director.”

Gerri Willis, “Pension Bust,” Fox Business, March 16, 2012, http://www.foxbusiness.com/on-air/willis-report/blog/2012/03/16/pension-bust

- Typically a pension plan is considered healthy if it meets an 80% funded benchmark.

Credit rating agencies

Standard & Poor’s, “U.S. State Ratings Methodology,” Global Credit Portal, Jan. 3, 2011, http://www.standardandpoors.com/prot/ratings/articles/en/us/?articleType=HTML&assetID=1245320477069

Pension Funded Ratio	
Strong	90% or above
Above Average	80% to 90%
Below Average	60% to 80%
Weak	60% or below

Fitch Ratings, “Enhancing the Analysis of U.S. State and Local Government Pension Obligations,” Feb.17, 2011, http://www.ncpers.org/Files/2011_enhancing_the_analysis_of_state_local_government_pension_obligations.pdf

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- “Half-truth #4: “Experts consider 80% to be a healthy funding level for a public pension fund.” This urban legend has now invaded the popular press, so it’s about time somebody set the record straight. No panel of experts ever made such a pronouncement. No reputable and objective expert that I can find has ever been quoted as saying this. What we have here is a classic myth. People refer to one report or another to substantiate their claim that some presumed experts actually made this assertion (including a GAO report and a Pew Center report that both cite unidentified experts), but nobody actually names these alleged “sources.” Like UFOs, these “experts” are always unidentified. That’s because they don’t actually exist. They can’t exist, because the pension math and 80 years of data from capital markets history just don’t support these unsubstantiated claims.”

Keith Brainard and Paul Zorn, “What is the source of the 80-percent threshold as a healthy or minimum funding level for public pension plans?” January 2012, http://www.wikipension.com/images/0/0a/80_percent_funding_threshold.pdf

- “Recently, some have challenged the idea that an 80% funding level is a healthy level for public pension plans and have asked about the origins of such statements. Based on our research, the use of 80% as a healthy or minimum public pension funding level seems to have its genesis in corporate plans, for which it was a statutory threshold. This standard was also applied to private sector multiemployer plans.”

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The Pension Factor 2012

The Role of Defined Benefit Pensions in Reducing Elder Economic Hardships

by Frank Porell, Ph.D. and Diane Oakley

July 2012

ABOUT THE AUTHORS

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Diane Oakley is Executive Director of the National Institute on Retirement Security and leads the organization's research, education and strategic planning initiatives. Before joining NIRS in 2011, Ms. Oakley worked on Capitol Hill. She played a key staff role in formulating legislative strategy on a range of pension, tax, Social Security, financial services, and workforce issues. Ms. Oakley also held leadership positions with TIAA-CREF, a leading financial services provider. During her 28-year tenure with the organization, she held a number of management, public policy, and technical positions. She began as an actuarial assistant and was promoted to positions including vice president for special consulting services and vice president for associations and government relations. She holds a B.S. in Mathematics from Fairfield University and an M.B.A. in Finance from Fordham University. She is a member of the National Academy of Social Insurance.

ACKNOWLEDGEMENTS

The authors would like to extend its deepest appreciation to Ilana Boivie for her work on this report. She was instrumental in guiding all aspects of this report. We also extend our thanks to those who reviewed and provided valuable comments on early drafts of this project including: Beth Almeida, Ellen Bruce, Elizabeth McNichol, Monique Morrissey, Patricia Pacey, and Nari Rhee. Rachel Fauber and Kelly Kenneally provided helpful advice and assistance. The views in this report and any errors and omissions are those of the authors alone.

EXECUTIVE SUMMARY

Recent turmoil in financial markets has substantially reduced the retirement savings of many workers and retirees alike. This has heightened public concerns that many older American households will not accumulate sufficient retirement savings to meet their needs in retirement. Fortunately, about half of older American households count on income from a defined benefit (DB) pension.

The predictable monthly benefits provided by DB plans remain a source of security to these retired households, enabling millions of Americans to remain secure and independent in old age. This study analyzes the contribution of DB pensions to the economic security of older American households.

The Pension Factor 2012 – an update of a similar study conducted in 2009 – finds that DB pension income continues to play a vital role in reducing the risk of poverty and material hardships among older Americans. **Rates of poverty among older households without DB pension income were approximately nine times greater than the rates among older households with DB pension income in 2010, up from six times greater in 2006.** Older households with DB pension income also were far less likely to experience food, shelter, and health care hardships. In addition, DB pension recipient households were less reliant on means-tested cash and non-cash public assistance.

While households with DB pension income generally fared better than households without pension income, DB pensions appear to have particularly improved the economic security of more vulnerable subpopulations of elder households. Our analysis suggests that common gender and racial disparities in rates of poverty, material hardships, and dependence on public assistance are greatly diminished, and in some cases nearly eliminated, among households receiving DB pension income. Even after controlling for a range of socio-demographic factors such as education, race, gender, and work history, we find that households with a pension fare better than those without. In other words, DB pensions appear to exert an independent, positive effect on older Americans' economic well-being – an effect we call the "pension factor."

This "pension factor" has helped substantial numbers of older American households avoid material hardships associated with inadequate food, shelter, and health care and to avoid having to rely on public assistance. More specifically, we estimate that in 2010, DB pension receipt among older American households was associated with:

- 4.7 million fewer poor and near-poor households
- 460,000 fewer households that experienced a food insecurity hardship
- 500,000 fewer households that experienced a shelter hardship
- 510,000 fewer households that experienced a health care hardship
- 1.22 million fewer households receiving means-tested public assistance

Furthermore, not counting Medicaid reimbursements for acute and long-term medical care, we estimate that in 2010 **governments spent about $7.9 billion dollars less on public assistance to older households because of their DB pension income.** This represents about 6.4 percent of aggregate public assistance dollars received by all American households in 2010 from similar benefit programs. This amount is substantial, particularly in light of the increased demand placed on the resources of government safety net programs throughout the country in recent years.

More broadly, the study also finds:

- a continued decrease in rates of DB pension income receipt likely related to more than three decades of declining DB plan participation rates among active employees.
- increasing fractions of older American workers will be entering retirement without the security of a DB pension in the future.
- older households with DB pension income generally fared better during the recent economic turmoil relative to households without such income.
- income from pensions may be especially important to middle income American households.
- lower rates of DB pension receipt are found among older persons living in the West and South relative to other regions.
- pensions have helped many older minority and female-headed households escape poverty.

INTRODUCTION

Traditional defined benefit (DB) pension plans have long been an important source of income for older households seeking to maintain a middle-class standard of living after a lifetime of work. Employees with pension plans can accumulate greater retirement wealth with a traditional DB plan relative to a defined contribution (DC) plan because they do not face complex decisions about whether to participate, how much to save, and how to invest or draw down their savings.

Under DC benefit plans, employers and/or employees generally make regular tax-deferred contributions to portable employee-owned and controlled retirement accounts that are typically invested in financial markets with potentially volatile rates of return. For example, on average 401(k) retirement account balances fell by nearly 28 percent in 2008 and increased by almost 32 percent in 2009.[1] In addition, since it is under their own control, individuals can often borrow against their DC retirement accounts. In 2009, about 21 percent of 401(k) participants eligible for loans had an outstanding loan against their 401(k) accounts that averaged about 15 percent of the account balance.[2] DB pension wealth is well-protected against such pre-retirement withdrawals. Lastly, individuals with DC plan accounts must also manage the risk associated with prematurely spending down their retirement savings. Retirees with traditional DB plans not only receive a guaranteed regular stream of income after retirement that continues until death, but surviving spouses have continued access to all or a portion of the income stream until their own deaths. Private sector pensions also are guaranteed by the Pension Benefit Guaranty Corporation. Because of these features of DB pension plans, older American households with DB pension income should have greater economic security than their counterparts without such income.

A previous study of the National Institute on Retirement Security entitled, "The Pension Factor,"[3] found that DB pension income plays a critical role in reducing the risk of poverty and hardship among older Americans. For example, poverty rates among older households without pension income were about six times greater than those among households with pension income. Pension income also reduced – and in some cases eliminated – the greater risk of poverty and dependence on public assistance among women and minority populations. Finally, analyses indicated that several million fewer households were poor or near poor, several hundred thousand fewer households experienced material hardships, and over one million fewer older households received means-tested public assistance in 2006 because of their DB pension income.

The purpose of this study is to update this earlier research in light of the near collapse of the world financial markets in 2008. This financial crisis created a deep economic recession that resulted in losses of about 5.5 million jobs, $360 billion in wages, and $1.6 trillion in real estate wealth during the fifteen months that followed the peak of the crisis in September 2008.[4] In this study, the role of DB pension income in reducing elder hardships is re-examined in 2010 with the same data sources as the previous study. In addition to providing some general insights about how older Americans were adversely affected by the 2008 financial crisis, the study's key findings show that older households with DB pension income were better protected from post-financial crisis poverty and economic hardships than their counterparts without pension income.

Data Source and Study Sample

The study data were drawn from the 2004 and 2008 panels of the Survey of Income and Program Participation (SIPP). SIPP Panel members, who comprise a representative national sample of the non-institutionalized civilian population, are asked a common core set of questions at four-month time intervals over a 3-4 year time span. A series of topical modules containing additional questions on specific topics, such as pension plan coverage and adult well-being, are only asked at one or two specific interviews over the course of several years. The 2004 and 2008 SIPP panel data used in this study were actually reported by individuals in 2006 or 2010, respectively. Two study samples were selected. The first included all SIPP respondents age 60 years or older. The second included all households with a householder age 60 or older. Additional details about the selection of the study sample and analytic data file construction are contained in the Technical Appendix.

PENSIONS REMAIN AN IMPORTANT SOURCE OF INCOME FOR RETIREES

Table 1 contains descriptive statistics about persons who have received DB pension income, how much they received, and how the amounts changed between 1998 and 2010 after adjustments for inflation. Receipt of a DB pension is defined here as receiving regular pension income from a former employer for reasons of retirement, disability, or survivorship that is expected to last for the remainder of one's life.

Lump sum pension distributions are not counted as DB pension income. According to these data, about 28% of persons age 60 or older in the U.S. received DB pension income from a former employer of their own in 2010. The mean and median annual pension amounts received in 2010 were about $19,427 and $14,400, respectively.

When the definition of pension receipt is expanded to include persons receiving DB pension income from survivor benefits and persons who benefit from the DB pension income received by their current spouse, the 2010 estimated rate of DB pension receipt increases to 42.8% of persons age 60 or older, with mean and median annual pension amounts received per recipient of $20,943 and $14,403, respectively. The higher amounts under this broader definition of DB pension receipt are the result of counting both pension incomes of dual-recipient married couples.

Figure 1: **Persons 60 and Older with Income from Own or Spouse's DB Pension**

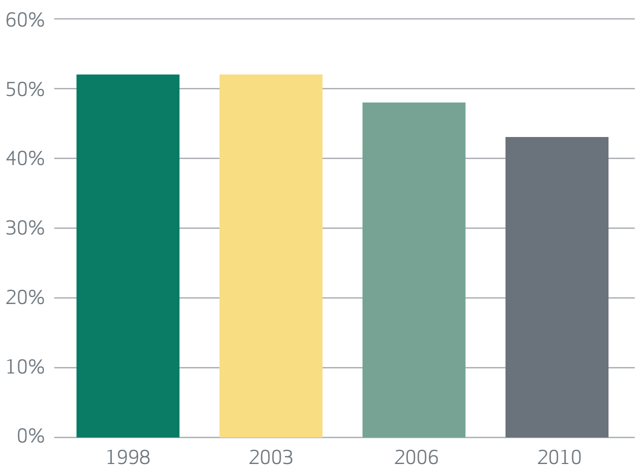


Figure 1 illustrates that the rate of DB pension receipt in 2010 was lowest in the study period. Decreases in rates of DB pension income receipt in both 2006 and 2010 suggest the start of a downward trend in receipt rates that likely stems from more than three decades of declining private DB plan participation rates among active employees. Whereas 38 percent of private sector employees participated in a DB plan in 1979, only 15 percent of employees did so in 2009.[5] DB plan participation rates also declined among public sector employees over the same time period, albeit more modestly. Whether these data on DB pension receipt are indicative of long-term trend cannot be determined without additional data, but given the long history of declining DB plan participation rates among American workers, the 2010 data suggest that increasing fractions of older American workers will be entering retirement without the security of a DB pension in the future. It should also be noted, however, that the mean and median annual amounts received from DB pensions have continually increased since 1998. Pension amounts increased in 2010 relative to 2006 despite the 2008 financial crisis.

Table 1: **Persons Age 60 or Older with DB Pension Income; 1998, 2003, 2006, and 2010**

		Persons Age 60 or Older with DB Pension Income from Own Former Employer	Persons Age 60 or Older with DB Pension Income from Own or Spouse's Former Employer
2010	Percent of Persons with DB Income	28.0%	42.8%
	Mean Pension Amount[a]	$19,427	$20,943
	Median Pension Amount[a]	$14,400	$14,403
2006	Percent of Persons with DB Income	31.5%	48.2%
	Mean Pension Amount	$17,353	$20,003
	Median Pension Amount	$12,607	$13,720
2003	Percent of Persons with DB Income	34.1%	51.8%
	Mean Pension Amount	$16,042	$18,645
	Median Pension Amount	$11,518	$13,473
1998	Percent of Persons with DB Income	33.5%	51.8%
	Mean Pension Amount	$14,278	$16,157
	Median Pension Amount	$10,177	$11,657

Source: Tabulations are from the 1996, 2001, 2004, and 2008 SIPP.
a All dollars are in 2010 dollars.

Table 2:
Persons Age 60 or Older with DB Pension Income by Selected Characteristics, 2010

		DB Pension from Own Former Employer			DB Pension from Own or Spouse's Former Employer		
	Number (millions)	Percent	Mean Pension Amount[a]	Median Pension Amount	Percent	Mean Pension Amount	Median Pension Amount
All	55.2	28.0%	$19,427	$14,400	42.8%	$20,943	$14,403
Gender							
Male	24.7	37.1%	$22,238	$17,412	44.0%	$23,535	$17,856
Female	30.5	20.6%	$15,307	$10,944	41.8%	$18,729	$12,000
Race/Ethnicity							
Non-Hispanic White	43.8	29.8%	$19,654	$14,403	45.8%	$21,195	$14,521
Non-Hispanic Black	4.9	28.1%	$18,986	$14,400	39.6%	$20,120	$15,516
Hispanic	3.8	14.4%	$16,623	$11,160	22.5%	$17,493	$10,800
Other Race/Ethnicity	2.7	18.4%	$17,744	$14,232	27.3%	$20,259	$16,080
Annual Household Income[b]							
Lowest Quintile	11.0	11.3%	$4,421	$2,845	16.9%	$3,349	$1,920
2nd Quintile	13.8	27.2%	$10,285	$8,798	43.0%	$8,680	$6,996
3rd Quintile	12.9	36.0%	$17,877	$15,720	55.4%	$18,446	$17,296
4th Quintile	10.4	36.1%	$26,396	$24,000	54.5%	$31,264	$30,516
Highest Quintile	7.1	28.8%	$36,030	$32,340	42.0%	$42,668	$36,000

Source: Tabulations are from the 2008 SIPP. Totals may not add up due to rounding.

a All dollars are in 2010 dollars.

b Quintile ranges are those reported by the U.S. Bureau of the Census for households with heads of all ages. Quintile boundaries (lowest to highest) are: $20,000; $38,040; $61,720; $100,065.

Characteristics of DB Pension Income Recipients in 2010

Table 2 shows how rates of DB pension income receipt varied with selected characteristics of older Americans in 2010. While DB receipt rates were lower overall in 2010 than in 2006, the *relative* rates of DB pension income receipt among subgroups of older persons are similar to those reported for 2006. Reflecting historical higher rates of labor force participation and wages, older men are nearly twice as likely as women to report DB pension income from a former employer (37.1% vs 20.6%). The mean annual pension amount received from a former employer among older men of $22,238 is also more than 45% greater than the mean of $15,307 among women. When spousal sources of pension income are counted in the broader definition of DB pension receipt, there is only a modest reduction in the gender disparity in pension amounts received. However, the 16.5 percentage point gender disparity in DB pension receipt is nearly eliminated, leaving only a 2.2 percentage point disparity (44.0% vs 41.8%). About two-thirds of marginal increase in the rate of DB pension receipt among women under the broader definition is due to marriage to a current DB pension recipient, with the remaining one-third due to DB pension survivor benefits. These data suggest the greater importance of spousal DB pension income to older women relative to men.

Table 2 also shows notable racial/ethnic disparities in rates of DB pension income receipt among older Americans. When DB pension receipt is based only on income from one's own former employer, rates of pension receipt among older non-Hispanic White and Blacks were similar (29.8% vs 28.1%). These rates were about twice as high as the 14.4 percent of older Hispanic persons receiving DB pension income from a former employer. In contrast to what is found for gender disparities, when spousal sources of DB pension income are counted, the White-Black racial disparity in DB pension receipt widens (45.8% vs 39.6%). The 15.4 percentage point White-Hispanic disparity in DB pension receipt rates from one's own employer is increased to 23.3 percentage points when spousal sources of DB income are counted. These data suggest that there may be disproportionately more married persons and persons with DB survivor benefits among White relative to Black and Hispanic older persons. While pension income amounts received by older White persons exceeded those for all other race/ethnic groups, the race/ethnic disparities in pension income amounts are relatively much smaller than those for receipt rates.

When pension receipt rates are displayed by household income quintile, they show that older persons with lowest household incomes are least likely to have DB pension income and, on average, receive the smallest pension amounts. Similar to previous research,[6] these data suggest that DB pension income is a particularly important income component for older persons with middle to higher household incomes. Whereas mean and median pension amounts received increase monotonically from the lowest to the highest household income quartiles, rates of DB pension income receipt are highest among older persons in the third and fourth quintiles of the national distribution of annual household income. This suggests that DB pension income may be especially important to middle income American households.

Geographic Variations in DB Pension Receipt

Table 3 contains data on the geographic variations in rates of DB pension receipt among regions and selected states. Although regional disparities are generally fairly modest, lower rates of DB pension receipt are found among older persons living in the West and South relative to other regions. While lower historical rates of unionization in the South probably contribute to its lower rate of pension receipt, regional differences in racial/ethnic composition of the older population are also likely to be a factor, particularly in the West. SIPP data show that about 23 percent and 11 percent of older persons were either Hispanic or Other Race in the West and South regions, respectively, and Table 2 shows that pension receipt rates were much lower among these two subgroups of older persons.[7] An examination of DB pension receipt rates for individual states shows that receipt rates were highest among older persons living in the states of Michigan, Indiana, Ohio and Maryland. The lowest receipt rates were among older persons in Florida and California. Industrial states, characterized by histories of heavy concentrations of unionized manufacturing jobs, such as Michigan and Indiana, tend to have higher rates of DB pension receipt. On the other hand, public sector pensions account for the high DB income receipt rate in Maryland, a state where many former and current federal government employees live.[8]

Table 3: **Geographic Variations: Rates of DB Pension Receipt in 2010 for Census Regions and Selected States**[a]

Geographic Area	Number of Persons (in 1,000s)[a]	Percent of Persons with DB Pension Income from Own Former Employer	Percent of Persons with DB Pension Income from Own or Spouse's Former Employer
United States	**55,160**	**28.0%**	**42.8%**
Northeast	10,690	30.1%	43.7%
Massachusetts	1,251	28.3%	41.2%
New Jersey	1,517	29.8%	40.7%
New York	3,601	31.1%	42.6%
Pennsylvania	2,713	31.8%	49.1%
Midwest	12,470	29.9%	47.2%
Illinois	2,095	26.1%	42.5%
Indiana	1,171	34.3%	53.7%
Michigan	1,863	36.0%	55.9%
Minnesota	978	31.1%	43.8%
Missouri	1,151	27.2%	42.9%
Ohio	2,330	31.4%	53.0%
Wisconsin	1,108	28.6%	43.9%
South	20,360	27.0%	41.1%
Alabama	939	27.3%	38.9%
Florida	3,970	23.9%	35.3%
Georgia	1,551	29.6%	40.2%
Maryland	938	36.0%	52.8%
North Carolina	1,662	26.9%	42.1%
South Carolina	935	32.0%	48.9%
Tennessee	1,214	26.6%	42.5%
Texas	3,601	23.8%	37.5%
Virginia	1,241	30.5%	49.1%
West	11,640	25.9%	40.1%
Arizona	657	24.2%	45.5%
California	5,636	23.5%	35.7%
Washington	1,108	28.3%	44.8%

Source: Tabulations from the 2008 SIPP.

a Receipt rates are only reported for individual states in which there were at least 250 SIPP respondents age 60 years and older.

Sources of Pension Income and Other Types of Retirement Income

Private and Public DB Pension Income

The top of Table 4 shows the number of older persons with private and public DB pension income and the amounts received for both 2006 and 2010. Public pensions include civilian and military federal government, state government, and local government. Private pensions include company, union, and other nongovernment retirement pensions.

While rates of pension receipt declined between 2006 and 2010, there were modest increases in the number of older persons with DB pension income due to an increase of about 6.6 million older persons nationally over four years. While recipients of private DB pension income greatly outnumbered public DB pension recipients in both 2006 and 2010, the number of older persons with pension income from a former private employer or from both a private and public former employer declined by more than 300,000 over those four years. Private pension coverage as a percent of the total US population declined from 20.1% to 16.6%, while public sector coverage remained relatively stable at 9.2% and 9.1% in

Table 4: **DB, DC, and Social Security Income Recipients and Amounts for Persons Age 60 or Older in 2006 and 2010**

	Persons in 2006 (millions)	Percent of Persons	Mean Annual Amount[a]	Median Annual Amount	Persons in 2010 (millions)[b]	Percent of Persons	Mean Annual Amount[a]	Median Annual Amount
DB Pension Income								
Own Former Employer	15.3	31.5%	$17,353	$12,607	15.4	28.0%	$19,427	$14,400
Private Sector Employer Only	9.7	20.1%	$12,294	$8,757	9.2	16.6%	$13,301	$9,593
Public Sector Employer Only	4.5	9.2%	$24,094	$20,889	5.0	9.1%	$26,199	$22,853
Both Public and Private	1.1	2.2%	$35,255	$29,280	1.3	2.3%	$36,838	$30,462
Own or Spouse's Former Employer	23.4	48.2%	$20,003	$13,720	23.6	42.8%	$20,943	$14,402
Private Sector Employer Only	12.9	26.6%	$13,503	$9,608	13.7	24.9%	$16,982	$11,991
Public Sector Employer Only	5.4	11.1%	$27,628	$23,029	6.9	12.5%	$33,230	$27,606
Both Public and Private	5.1	5.0%	$37,851	$32,071	3.0	5.4%	$41,717	$33,454
DC Income								
Own	7.4	15.3%	$7,907	$3,298	7.1	12.8%	$7,627	$3,490
Own or Spouse's	9.9	20.5%	$9,764	$4,398	9.5	17.2%	$9,247	$4,208
Social Security Income								
Own	37.6	77.4%	$13,154	$13,234	40.3	73.1%	$12,927	$12,852
Own or Spouse's	39.7	81.6%	$18,207	$17,060	43.0	78.0%	$18,325	$16,803

Source: Analysis of data from the 2004 and 2008 SIPP. Totals may not add up due to rounding.

a All dollars are in 2010 dollars.

2006 and 2010, respectively. This absolute decline in pension recipient benefits in all or part of the private sector is a major factor contributing to the overall decline in pension receipt rates between 2006 and 2010.

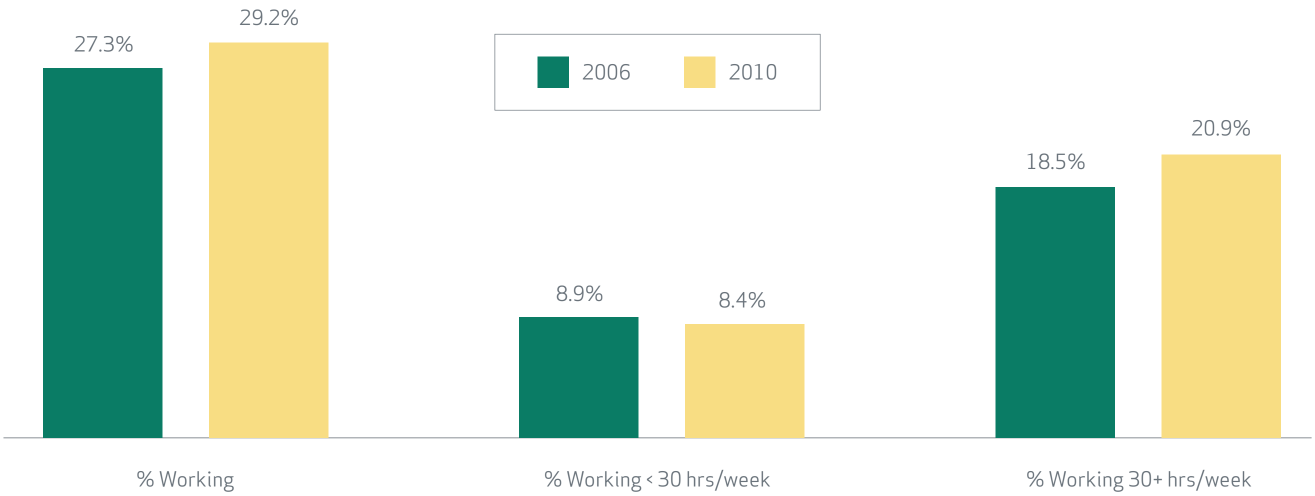
Because much of the public sector does not receive Social Security, wages are lower and DB pension recipients generally received far greater annual pension income than their private DB pension recipient counterparts in both 2006 and 2010. There was little change in the relative levels of public and private pension payments. The mean and median annual amounts of pension income of $26,199 and $22,853 among recipients with only public pensions were greater than the mean ($13,301) and median ($9,593) amounts received by DB pension recipients with only private pensions which is similar to 2006. In both years, the relatively small pool of DB pension recipients with both private and public pensions received much larger pension incomes than their counterparts with only public or private pension income, even when pension receipt is based solely upon one's own former employment. When spousal sources of pension income are also considered, there is a modest increase in the disparity between private and public pension amounts received by recipients. The greater retirement income received by public relative to private DB pension recipients has been attributed to several factors, such as lower job turnover and longer employment tenure, differing occupational mix and higher education levels, and lower overall compensation among public sector employees.[9] Additionally, as many as 30 percent of state and local workers are not covered by Social Security. These employees generally receive higher pension benefits to make up for the lack of Social Security benefits in retirement.[10]

Pension Income Compared to Other Retirement Income

Table 4 also contains comparative data on receipt rates and lifetime income amounts received from defined contribution (DC) plans and Social Security (SS) income for older persons in 2006 and 2010.[11] These data show that in both years DC income receipt rates were far lower than receipt rates of both DB and Social Security income, and the rate of Social Security income receipt was highest by far among the three sources of retirement income. When public/private sources are not distinguished, the median annual income received was lowest for DC income recipients and highest for Social Security income recipients. The mean annual DC income received remains the lowest, but the rankings between mean annual Social Security and DB pension income are reversed.[12] This latter reversal of rankings is attributable to relatively small numbers of DB income recipients who receive larger pension incomes, which drives up the mean income amount but not the median.[13]

A comparison of 2006 and 2010 data shows that receipt rates of all three types of retirement income fell between 2006 and 2010. The approximate 2-4 percentage point declines in DC income receipt rates were a little lower than the 3-5 percentage point declines in both DB pension and Social Security income receipt. One factor that likely contributed to these declines in retirement income receipt generally is a higher employment rate among older persons in 2010 than in 2006. SIPP data in Figure 1 show that the percentage of persons 60 years or older who were employed increased by almost 2 percentage points over the four years, rising from 27.3 percent in 2006 to 29.2 percent in 2010. While the percentage of older persons working less than 30 hours per week declined from 8.9 percent in 2006 to 8.4 percent in 2010, the percentage of older persons working at least 30 hours per week increased from 18.5 percent to 20.9 percent over the same time period. While the reasons for the increase in employment rates among older persons cannot be discerned from the study data, it is plausible that many older persons may have delayed their retirement to compensate for job and/or wealth losses associated with the 2008 financial crisis.[14] Lastly, there were modest increases and decreases in inflation-adjusted Social Security and DC income received between 2006 and 2010 depending upon whether spousal pension income is counted or not and whether the mean or median is used as a yardstick. In contrast there were consistent modest increases in both the mean and median inflation-adjusted DB pension income amounts received between 2006 and 2010 regardless of spousal pension receipt.

Figure 2: **Employment Status of Older Householders in 2006 and 2010**



HOUSEHOLDS WITH PENSION INCOME FACE FEWER RISKS OF POVERTY AND HARDSHIP

We now turn our attention to the economic welfare of older American households with DB pension income relative to other households. Similar to our earlier study, annual household income relative to the federal poverty level (FPL) is used as one yardstick for measuring economic well-being.

Because conventional poverty-level measures have a number of acknowledged limitations,[15] we also employ direct measures of material hardships that are derived from self-reports of consumption patterns and physical living conditions judged to be inadequate by societal standards. Despite some shortcomings of their own,[16] material hardship measures provide a tangible picture of the consequences of inadequate economic resources, and are regarded as useful supplements to FPL indicators for assessing economic well-being.[17] In Tables 5 and 6 below, we compare not only poverty rates, but also rates of selected material hardships among households with and without DB pension income. Since FPL thresholds of the U.S. Bureau of the Census are measured for families and SIPP questions on material hardships refer to households, we analyzed data for households with a householder age 60 or older rather than individual older persons.[18]

Poverty Rates

Table 5 shows how poverty rates varied among older households with DB pension receipt status and by selected characteristics of the householder in 2010. Households with incomes below the FPL are classified as "poor." Households with incomes exceeding the FPL but less than or equal to 200% of the FPL are classified as "near-poor," while households with incomes exceeding 200% of the FPL are classified as "not-poor." DB pension receipt pertains to both the householder and his/her spouse. In 2010 about 9.7 percent of American households with householders aged 60 or older were poor, and another 24.2 percent of them were near-poor. The poverty rate is much lower among older households with DB pension income relative to their counterparts with no DB pension income. The poverty rate of 15.5 percent among older households without

Table 5: **Economic Welfare Comparisons: Percentages of Older Households with Household Incomes Exceeding Poverty Thresholds by DB Pension Income Status and Other Selected Characteristics, 2010**

	Number (millions)	Percent of Households with Annual Income Classified as:		
		Poor[a]	Near Poor[a]	Not Poor[a]
All Households	35.4	9.7%	24.2%	66.1%
With Own or Spouse Pension Income	14.9	1.7%	14.7%	83.6%
No Pension Income	20.4	15.5%	31.2%	53.2%
Gender of Householder				
Male				
With Own or Spouse Pension Income	6.9	1.3%	8.8%	89.9%
No Pension Income	8.7	11.7%	26.3%	62.1%
Female				
With Own or Spouse Pension Income	8.1	2.0%	19.7%	78.3%
No Pension Income	11.7	18.4%	34.9%	46.7%
Race/Ethnicity				
Non-Hispanic White				
With Own or Spouse Pension Income	12.7	1.5%	13.5%	85.0%
No Pension Income	15.6	12.4%	31.1%	56.5%
Non-Hispanic Black				
With Own or Spouse Pension Income	2.1	2.9%	22.0%	75.0%
No Pension Income	1.8	26.9%	35.0%	38.1%
Hispanic				
With Own or Spouse Pension Income	0.5	2.2%	24.0%	73.8%
No Pension Income	1.6	25.4%	29.0%	45.6%
Other Race/Ethnicity				
With Own or Spouse Pension Income	1.0	2.7%	14.4%	82.9%
No Pension Income	2.0	23.7%	28.8%	47.5%

Source: Tabulations are from the 2008 SIPP, Wave 6 Core File and Retirement and Pension Coverage Topical Module 3. Totals may not add up due to rounding.

a Poor: Annual Household Income below Federal Poverty Level (Income <= FPL); Near Poor: (FPL < Income <= 200% FPL); Not Poor: (Income > 200% FPL).

Table 6: **Material Hardship Comparisons: Percentages of Older Households Reporting Food, Shelter, and Health Care Material Hardships by DB Pension Income Status and Other Selected Characteristics, 2010**

	Number (millions)	Percent of Households Reporting:		
		Food Insecurity Hardship[a]	One or More Shelter Hardship[a]	One or More Health Care Hardship[a]
All Households	35.4	6.2%	5.9%	7.0%
With Own or Spouse Pension Income	14.9	3.5%	3.0%	4.3%
No Pension Income	20.4	8.2%	8.0%	9.1%
Gender of Householder				
Male				
With Own or Spouse Pension Income	6.9	2.9%	3.0%	4.0%
No Pension Income	8.7	7.6%	7.0%	7.8%
Female				
With Own or Spouse Pension Income	8.1	4.1%	3.0%	4.6%
No Pension Income	11.7	8.7%	8.8%	10.0%
Race/Ethnicity				
Non-Hispanic White				
With Own or Spouse Pension Income	12.7	2.8%	2.1%	3.8%
No Pension Income	15.6	6.3%	5.8%	8.4%
Non-Hispanic Black				
With Own or Spouse Pension Income	2.1	7.7%	10.0%	7.4%
No Pension Income	1.8	15.9%	20.0%	11.4%
Hispanic				
With Own or Spouse Pension Income	0.5	8.8%	4.0%	6.4%
No Pension Income	1.6	15.5%	12.0%	11.4%
Other Race/Ethnicity				
With Own or Spouse Pension Income	1.0	7.3%	6.1%	8.0%
No Pension Income	2.0	10.1%	10.2%	10.1%
Annual Household Income[b]				
Low Income				
With Own or Spouse Pension Income	1.7	6.3%	3.4%	5.8%
No Pension Income	7.7	12.0%	11.1%	11.9%
Middle Income				
With Own or Spouse Pension Income	11.8	3.4%	3.1%	4.3%
No Pension Income	10.7	6.4%	6.6%	8.1%
High Income				
With Own or Spouse Pension Income	1.5	1.5%	1.9%	2.6%
No Pension Income	2.0	2.8%	4.0%	3.5%

Source: Tabulations from the 2008 SIPP, Wave 6 Core File and Retirement and Pension Coverage Topical Module 3. Totals may not add up due to rounding.

a See Technical Appendix for definitions of food, shelter, and health care hardship indices.

b Income classification is based on annual household income and quintiles of the distribution of annual income for households of all ages in 2010. Low Income = Quintile 1, Middle Income = Quintiles 2-4, and High Income = Quintile 5 .

any DB pension income exceeded the 1.7 percent rate among households with DB pension income by more than a factor of nine (Figure 3). Furthermore, the 31.2 percent rate of near-poverty among households without DB pension income is more than double the near-poverty rate of 14.7 percent found for their counterparts with DB pension income.

Table 5 shows large gender and racial disparities in poverty rates among older American households. Older households headed by women generally exhibit higher poverty rates than those headed by men with the same DB pension status.[19] Likewise, older non-Hispanic White households have much lower poverty rates than households of other race/ethnic status with the same DB pension status. However, many of these disparities are substantially reduced and nearly eliminated among households with DB pension income. The 6.7 percentage point female disparity in the percentage of poor households without DB pension income (18.4 percent vs 11.7 percent) is nearly eliminated among households with DB pension income (i.e., 2.0 percent vs 1.3 percent). Furthermore, the double-digit percentage point racial disparities in poverty rates between White households and non-White households without DB pension income (12.4 percent for Whites vs 23.7 to 26.9 percent for non-White households) are reduced to disparities of less than 2 percentage points among households with DB pension income (1.5 percent for Whites vs 2.2 to 2.9 percent for non-Whites). These data suggest that DB pensions have helped many older minority and female-headed households to escape poverty as defined by the FPL.

Households with Pensions Face Fewer Material Hardships

We analyzed three types of material hardship indicators of economic welfare: inadequate food consumption, inability to meet basic expenses associated with shelter, and unmet medical or dental needs. Hardships associated with inadequate food consumption were measured from SIPP questions that were used in a food security scale formerly used by the U.S. Department of Agriculture (USDA).[20] The scale is derived from responses to five questions about food-related hardships experienced due to lack of money over the last four months: (1) food we bought didn't last, (2) couldn't afford balanced meals, (3) cut size or skipped meals, (4) ate less than felt needed, and (5) didn't eat for a whole day. Households with two or more responses of "yes," "often," or "sometimes" are classified as experiencing a *food insecurity hardship*.[21] Households reporting that they were unable to pay the full amount of the rent or mortgage, or the full amount of gas, oil, electricity, or telephone utility bills, are classified as having experienced a s*helter expense hardship*. Although the vast majority of Americans 65 years and older are entitled under Medicare, most dental services and some medical expenses are not covered by Medicare and out-of-pocket costs for deductibles and co-payments can impose a strain on household budgets. Households are defined as having experienced a *health care hardship* if they reported that in the past year one or more household members did not see a doctor or dentist when there was a need to see one.

Table 6 shows that about 6.2 percent of older American households in 2010 experienced a food insecurity hardship, an increase from the 4.7 percent rate that was found in 2006. Rates of food insecurity hardships differ widely among subpopulations of older households. The estimated rate of food insecurity hardships among older households without DB pension income (8.2 percent) is about 2.3 times greater that of their counterparts with DB pension income (3.5 percent). Even when households are stratified by income class, rates of food insecurity hardships are lower among households with DB pension income relative to their counterparts without such income. The data also suggest that there are substantial reductions in some racial/ethnic disparities among households receiving DB pension income. For example, the Black-White racial disparity in the rate of food insecurity hardship of nearly 9.6 percentage points (15.9 percent vs 6.3 percent) among households without DB pension income is nearly halved to 4.9 percentage points (7.7 percent vs 2.8 percent) among households with DB pension income.

Table 6 also displays rates of shelter expense and health care hardships in 2010. Whereas about 4.6 percent of older American households reported a shelter hardship in 2006, this number increased to about 5.9 percent in 2010. Rates of health care hardships among older households also increased between 2006 and 2010, from about 6 percent to roughly 7 percent. Rates of shelter and medical hardships were both consistently lower among households with DB pension income relative to their counterparts without such income. Only about 3 percent of households with DB pension income experienced a shelter expense hardship in 2010 relative to an 8 percent rate among households without DB pension income. The 9.1% rate of health care hardships among older households without DB pension income was more than double the 4.3% rate among DB pension recipient households. Although the differences are smaller in magnitude, lower rates of both types of hardships are found among DB pension recipient households when households are stratified into income classes.

Table 7: **Public Assistance Receipt: Percentages of Older Households Receiving Public Assistance and Dollar Amounts of Assistance by DB Pension Income Status and Other Selected Characteristics, 2010**

	Number (millions)[a,b]	Percent Receiving Public Assistance	Mean Amount Received[a]	Median Amount Received[a]
All Households	35.4	11.4%	$6,494	$4,224
With Own or Spouse Pension Income	14.9	4.7%	$7,211	$4,269
No Pension Income	20.4	16.4%	$6,342	$4,197
Gender of Householder				
Male				
With Own or Spouse Pension Income	6.9	4.3%	$8,161	$5,374
No Pension Income	8.7	12.7%	$6,829	$4,636
Female				
With Own or Spouse Pension Income	8.1	5.0%	$6,514	$3,417
No Pension Income	11.7	19.0%	$6,100	$3,921
Race/Ethnicity				
Non-Hispanic White				
With Own or Spouse Pension Income	12.7	3.7%	$7,318	$4,416
No Pension Income	15.6	10.9%	$5,831	$3,312
Non-Hispanic Black				
With Own or Spouse Pension Income	2.1	10.4%	$5,974	$4,596
No Pension Income	1.8	35.3%	$6,318	$4,461
Hispanic				
With Own or Spouse Pension Income[c]	0.5	9.8%	$8,641	$2,280
No Pension Income	1.6	33.9%	$6,787	$5,760
Other Race/Ethnicity				
With Own or Spouse Pension Income[c]	1.0	12.2%	$8,065	$3,000
No Pension Income	2.0	31.8%	$8,328	$7,492

Source: Tabulations from the 2008 SIPP. Totals may not add up due to rounding.

a All dollars are expressed in 2010 dollars.

b Caution must be exercised for these estimates since they are based on less than 50 households in the sample data with public assistance.

Similar to food insecurity hardships, there are fairly large gender and race disparities in rates of shelter and health care hardships. The data suggest that gender disparities in these two forms of material hardships are reduced—and potentially eliminated in the case of shelter hardships—among household receiving DB pension income. Disparities in rates of shelter hardship between White and racial/ethnic households are smaller among households with DB pension income. For example, the 6 percentage point disparity in shelter hardship rates between White and Hispanic households without DB pension income (5.8 percent vs 12 percent) is three times greater than the almost 2 percentage point disparity among DB pension income recipient households (2.1 percent vs 4 percent). However, while health care hardships are lower among households with DB pension income, racial/ethnic disparities do not appear to be reduced very much among households with DB pension income.

Households with Pensions Income are Less Likely to Rely on Public Assistance

For many older American households with insufficient retirement income, particularly those unable to work or to find suitable employment, there may be few options other than to seek public assistance to help them meet their basic living needs. Table 7 shows that in 2010 about 11.4 percent of some 35.4 million American households with a householder age 60 or older received an average of $6,494 in means-tested cash transfers (e.g., Supplemental Security Income [SSI], general assistance) and/or noncash public assistance (e.g., food stamps, rent subsidies, energy assistance). This rate of public assistance receipt is only slightly higher than the 10.9 percent rate that was found for 2006. These are conservative estimates of public assistance receipt, since the SIPP definition of means-tested public assistance does not include expenditures made on behalf of Medicaid recipients.

The data in Table 7 suggest that older households receiving DB pension income are much less reliant on public assistance transfers than households without pension income. Among households without DB pension income, 16.4 percent received public assistance in 2010, a rate that is more than triple the 4.7 percent rate for households with DB pension income. Interestingly, 2010 public assistance recipient households with DB pension received about $869 more, on average, in cash and noncash transfer income than their public assistance recipient counterparts without DB pension income.[22]

There are large gender and race/ethnic disparities in rates of public assistance receipt, yet these disparities are generally smaller among households with DB pension income. Whereas rates of public assistance receipt rates among female-headed households without DB pension exceeded those with male heads by 6.3 percentage points (19 percent vs 12.7 percent), this gender disparity was reduced to less than one percentage point among households with pension income (5 percent vs 4.3 percent). Among households without DB pension income, the public assistance receipt rates of non-White households, all of which exceeded 30 percent, were about 20 percentage points higher than the 10.9 percent receipt rate among White households without DB income. However, none of the race/ethnic disparities in public assistance receipt rates relative to White households exceeded 8.5 percentage points among households with DB pension income.[23]

Pension Income Protected Many Older Households From the 2008 Financial Collapse

The data presented thus far suggests that, on average, the economic welfare of older American households declined between 2006 and 2010. When these data are reported alongside of each other in Table 8, they provide a fuller picture of the economic hardships experienced by older American households before and after the 2008 financial crisis. Both the number and percentage of older households classified as poor increased between 2006 and 2010, adding about 570,000 to the overall count of poor households. Although the percentage of near-poor households declined, the absolute count of near-poor older households increased by about 526,000 between 2006 and 2010. Rates of material hardships among older households also increased substantially between 2006 and 2010. At the same time, however, there was only a relatively modest increase in the rate of public assistance receipt among older households between the same years (Figure 4).[24]

When the data are stratified by DB pension receipt status, the data in Table 8 suggest that older households with DB pension income generally fared much better during this period of economic turmoil relative to their counterparts without pension income. Both the percentage and the absolute number of poor households with DB pension income actually declined between 2006 and 2010. Furthermore, although material hardship rates increased among households with DB pension income between 2006 and 2010, the percentage-point increases in their hardship rates were between 0.6 and 1.16 percentage points smaller than the percentage-point increases for households without DB pension income. For example, whereas there was a 0.6 percentage point increase in shelter hardship rates among DB pension recipient households between 2006 and 2010, shelter hardship rates increased by more than 1.4 percentage points among households without DB pension income over the same time period. While these data suggest that DB pension income protected many older households from economic hardship after the 2008 financial crisis, there were about 60,000 fewer older households with DB pension income in 2010 than in 2006. In comparison, the number of older households without pension income increased by about 3.86 million. Given the likely continued decline in rates of DB pension receipt, these data not portend much optimism about the economic well-being of older American households in the future.

Table 8: **The 2008 Financial Crisis: Rates of Poverty, Material Hardships, and Public Assistance Receipt among Older Households in 2006 and 2010 by DB Pension Status**

	All Households		
	2006	2010	Change 2006-2010[a]
Households (millions)	31.6	35.4	3.8
Poverty Status			
Percent Poor[b]	9.0%	9.7%	0.7%
Number of Households (thousands)[c]	2,851	3,421	570
Percent Near Poor	25.5%	24.2%	-1.3%
Number of Households	8,040	8,566	526
Percent Not Poor	65.5%	66.1%	0.6%
Number of Households	20,677	23,370	2,693
Material Hardships/Public Assistance			
Percent with Food Insecurity Hardship	4.7%	6.2%	1.5%
Number of Households (thousands)	1,496	2,204	708
Percent with Shelter Hardship	4.6%	5.9%	1.3%
Number of Households	1,452	2,086	634
Percent with Health Care Hardship	6.0%	7.0%	1.0%
Number of Households	1,907	2,489	582
Percent with Public Assistance	10.9%	11.4%	0.5%
Number of Households	3,432	4,044	612

	With DB Pension Income		
	2006	2010	Change 2006-2010
Households (millions)	15.0	14.9	-0.06
Poverty Status			
Percent Poor[b]	2.4%	1.7%	-0.7%
Number of Households (thousands)[c]	355	251	-104
Percent Near Poor	16.2%	14.7%	-1.5%
Number of Households	2,425	2,194	-231
Percent Not Poor	81.5%	83.6%	2.1%
Number of Households	12,240	12,500	260
Material Hardships/Public Assistance			
Percent with Food Insecurity Hardship	2.6%	3.5%	0.9%
Number of Households (thousands)	399	528	129
Percent with Shelter Hardship	2.4%	3.0%	0.6%
Number of Households	363	449	86
Percent with Health Care Hardship	4.2%	4.3%	0.1%
Number of Households	625	642	17
Percent with Public Assistance	4.6%	4.7%	0.1%
Number of Households	690	703	13

Figure 3: **DB Pension Status Impact: Poverty in 2006 and 2010**

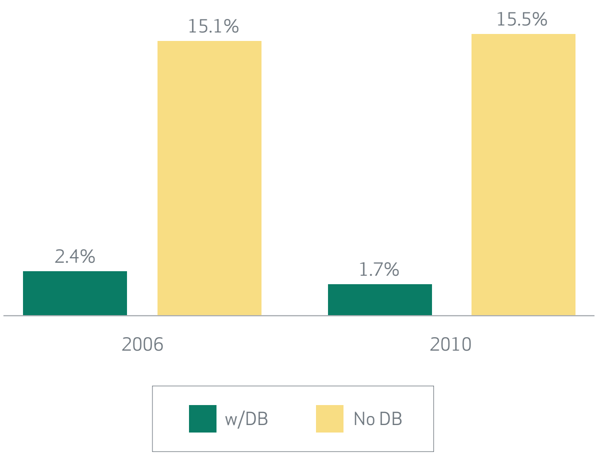


Figure 4: **DB Pension Status: Number of Households Receiving Public Assistance**

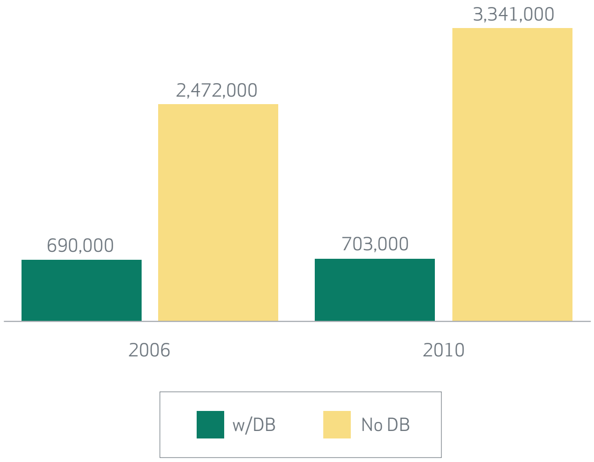


Table 8 (continued)

	No DB Pension Income		
	2006	2010	Change 2006-2010
Households (millions)	16.6	20.4	3.86
Poverty Status			
Percent Poor[b]	15.1%	15.5%	0.4%
Number of Households (thousands)[c]	2,496	3,170	674
Percent Near Poor	33.9%	31.2%	-2.7%
Number of Households	5,615	6,372	757
Percent Not Poor	51.0%	53.2%	2.2%
Number of Households	8,437	10,870	2,433
Material Hardships/Public Assistance			
Percent with Food Insecurity Hardship	6.7%	8.2%	1.5%
Number of Households (thousands)	1,097	1,676	579
Percent with Shelter Hardship	6.6%	8.0%	1.4%
Number of Households	1,089	1,637	548
Percent with Health Care Hardship	7.8%	9.1%	1.3%
Number of Households	1,282	1,847	565
Percent with Public Assistance	16.6%	16.4%	-0.2%
Number of Households	2,742	3,341	599

Source: Analysis of data from the 2004 and 2008 SIPP.

a Changes in percentages are reported as differences in percentage points. They are computed as simple differences between 2010 and 2006 values. These should not be interpreted as percentage increases or decreases from 2006 to 2010.

b Poor: (Income <= FPL), Near Poor: (FPL < Income <=200% FPL), Not Poor: (Income > 200% FPL)

c Except for total households all other household counts are reported in thousands.

THE PENSION FACTOR: ISOLATING THE IMPACT OF PENSION INCOME ON ELDER WELL-BEING

The descriptive statistics presented thus far suggest that older households with DB pension income in 2010 fared much better than households without such income on several indicators of economic welfare.

We now quantify these impacts by developing estimates of how many households were able to escape poverty and avoid material hardships as a consequence of their DB pension income. In addition, we estimate government savings in the form of public assistance expenditures that were not made because of the financial security associated with the receipt of DB pension income. In order to provide some perspective on the magnitude of these estimated DB impacts, we also develop similar estimates of the impacts of DC and Social Security income receipt.

The estimated impacts of DB, DC, and Social Security retirement income receipt on poverty, material hardships, and public assistance receipt outcomes in 2010 are derived from statistical models. In order to isolate the effects of DB, DC, and Social Security receipt on the probability of each adverse outcome, each statistical model contained a set of household attribute variables reflecting factors that in theory should also affect the probability of a household suffering the adverse outcome.

To illustrate the importance of controlling for other factors affecting these adverse outcomes, we will consider poverty status. In order to isolate the effect of DB pension receipt on the probability that an older household is poor, we must control for differences in the education, age, gender, marital status, and the race/ethnicity of the householder, because the risk of poverty will vary among households depending on these characteristics. For example, a household headed by a native-born, higher-educated, married, white male may be expected to have had a more continuous work history, higher earnings, and greater wealth accumulation than a household headed by a foreign-born, lesser-educated, divorced, Black woman. Because the male householder in this example should also be more likely than his female counterpart to have worked in a job with a DB pension benefit, such potential confounding household characteristics must be specified as variables in a statistical model of poverty status. Otherwise, we may erroneously attribute the effects of factors such as higher education, male gender, or race on poverty risk to an effect of DB pension receipt.[25]

In each statistical model, the probability of a household experiencing the adverse outcome was specified to be a function of socio-demographic attributes of the household and its head. These attributes included age, gender, race, marital status, education level, household size, foreign born and citizenship status, geographic residence location, career industry and occupation, current employment status, and indicators of whether or not the household receives DB pension income, DC income, and Social Security income. The estimated coefficient for a particular variable in these models, such as DB pension receipt, reflects the independent contribution of that factor to the predicted probability that a household with certain characteristics (like those mentioned above) will experience a poverty or material hardship outcome, when all of the other variables in the model are unchanged.

For example, consider two households that have identical socio-demographic and economic attributes and who live in the same geographic region. Neither household receives any DC income. Both households receive some Social Security income. These two households differ only in that one of them receives some DB pension income and the other does not. The estimated coefficient for the DB pension receipt variable in the statistical models allows us to estimate the how much the probability of each hardship outcome will differ for these two, otherwise identical, households. By extension, these coefficients can also be used to estimate for how much the probability of hardship and poverty outcomes are expected to change, on average, for each household with DB pension income in the sample data if they had not received any DB pension income.

The estimated coefficients from the statistical models were used to generate national predictions of the number of households that would have experienced each adverse outcome, such as poverty or a shelter hardship, if no households received any DB pension income. The difference between this adjusted estimate and the national estimate of households actually experiencing the outcome produces a national estimate of the number of households that were able to avoid adverse economic welfare because of their receipt of DB pension income. Additional details about the analytic strategy, model estimation, and sensitivity analyses conducted to test the robustness of the empirical results can be found in the Technical Appendix.[26]

Pensions Reduce Poverty

Table 9 presents national estimates of the impacts of DB pension, DC, and Social Security income on the poverty status of older households in 2010. The estimates suggest that in 2010, about 4.7 million older households would have been added to the count of poor or near-poor households if not for their receipt of DB pension income. An estimated 1.47 million additional households that were not poor in 2010

Table 9: **The Pension Factor: Projected Changes in Poor, Near Poor and Not Poor Older Households without DB, DC, and Social Security Income in 2006 and 2010**

	Number of Households in 2006 (millions)	Net Change in Households (millions)	Percent change	Number of Households in 2010 (millions)	Net Change in Households (millions)	Percent change
Poor Households[b]						
Actual SIPP National Estimate	2.85			3.42		
Without DB Income Receipt[a]		1.72	60.4%		1.71	50.1%
Without DC Income Receipt		0.03	1.1%		0.09	2.6%
Without Social Security Income Receipt		2.95	103.5%		3.77	110.3%
Near Poor Households[b]						
Actual SIPP National Estimate	8.04			8.57		
Without DB Income Receipt		2.97	36.9%		2.99	34.9%
Without DC Income Receipt		0.06	0.7%		0.10	1.2%
Without Social Security Income Receipt		-1.30	-16.2%		-2.31	-26.9%
Not Poor Households[b]						
Actual SIPP National Estimate	20.68			23.36		
Without DB Income Receipt		-4.69	-22.7%		-4.71	-20.1%
Without DC Income Receipt		-0.09	-0.4%		-0.19	-0.8%
Without Social Security Income Receipt		-1.64	-7.9%		-1.47	-6.3%

Source: Analysis of data from the 2004 and 2008 SIPP.

a Results are derived from a multinomial logit model with dummy variables indicating DB, DC, or Social Security receipt set to zero, respectively. See Technical Appendix.

b Poor: (Income <= FPL), Near-Poor: (FPL < Income <=200% FPL), Not-Poor: (Income > 200% FPL)

Table 10: **The Pension Factor: Projected Changes in Older Households Experiencing Material Hardships without DB, DC, or Social Security Income in 2006 and 2010**

	Older Households Experiencing Hardship 2006 (millions)	Increase in Households with Hardship (millions)	Percent change	Older Households Experiencing Hardship 2010 (millions)	Increase in Households with Hardship (millions)	Percent change
Food Insecurity Hardship						
Actual SIPP National Estimate	1.50			2.20		
Without DB Pension Income Receipt[a]		0.43	28.6%		0.46	20.9%
Without DC Income Receipt		0.05	3.4%		0.00	0.0%
Without Social Security Income Receipt		0.00	0.0%		0.00	0.0%
Any Shelter Hardship						
Actual SIPP National Estimate	1.45			2.09		
Without DB Pension Income Receipt		0.38	26.2%		0.50	24.0%
Without DC Income Receipt		0.04	2.8%		0.04	1.7%
Without Social Security Income Receipt		0.00	0.0%		0.00	0.0%
Health Care Hardship						
Actual SIPP National Estimate	1.91			2.49		
Without DB Pension Income Receipt		0.32	16.8%		0.51	20.6%
Without DC Income Receipt		0.06	3.2%		0.03	1.3%
Without Social Security Income Receipt		0.00	0.0%		0.00	0.0%

Source: Analysis of data from the 2004 and 2008 SIPP.

a Results are derived from binary logit models with dummy variables indicating DB, DC, or Social Security receipt set to zero, respectively. See Technical Appendix.

would be similarly re-classified as poor or near-poor if not for their receipt of Social Security income.[27] About 190,000 not-poor households in 2010 would be reclassified as near-poor or poor without their receipt of DC income.[28] Table 9 contains similar estimates for 2006, previously reported for comparison purposes. The estimated numbers of older households protected from living in poverty or near-poverty due to retirement income receipt in 2010 are comparable to those estimated for 2006.

More not-poor older households were protected from poverty or near-poverty by DB pension income receipt than Social Security income receipt. However, Social Security income protected a greater number of older near-poor and not-poor households from more extreme poverty (defined by income below the FPL) than did DB pension receipt (3.77 million vs 1.71 million). In other words, the data for both years suggests that Social Security is highly effective at helping seniors avoid poverty, while DB pensions better enable people to maintain a middle-class standard of living in retirement.

Pensions Reduce Material Hardships

Table 10 contains estimates of the impacts of DB, DC, and Social Security income receipt on the material hardships experienced by older American households in 2006 and 2010. We estimate that about 460,000 additional older households would have experienced food insecurity hardships in 2010 if it were not for their DB pension income. This would amount to nearly a 21 percent increase in older households experiencing food insecurity hardships. Without their DB pension income, we estimate that about 500,000 additional older households would have experienced a shelter hardship in 2010, a 24 percent increase over the estimated 2.09 million older households with actual shelter hardships that year. We also estimate that additional 510,000 additional older households would have experienced a health care hardship in 2010 without their receipt of DB pension income, a 20.6 percent increase over the 2010 national estimate of 2.49 million older households where a household member did not see doctor or dentist when one was needed. Interestingly, the likelihood of each of the material hardships was not associated with either DC income or Social Security income receipt once other household risk factors for these hardships were accounted for in 2010.[29]

A comparison of 2006 and 2010 projected impacts of DB pension receipt on material hardships suggests that DB pension income protected more households from these material hardships in 2010 than in 2006. However, the SIPP estimates of households actually suffering from these material hardships were also greater in 2010 than in 2006.[30] The percentage increases in projected numbers of older households experiencing material hardships in the absence of DB pension income were a little smaller in 2010 than in 2006 except for health care hardships (20.6 percent in 2010 vs 16.8 percent in 2006). The lower rate of DB pension receipt among all older households and the higher rate of material hardships among households with DB pension income contribute to the more modest impacts of DB pension receipt when measured on a percentage basis.

Pensions Reduce Public Assistance Receipt

Table 11 contains national estimates of the impact of DB, DC, and Social Security income receipt upon older households' receipt of means-tested public assistance in 2006 and 2010. We estimate that without their receipt of DB pension income, an additional 1.22 million older American households would be added to the rolls of public assistance recipients in 2010. This represents more than a 30 percent increase over the four million older households who received public assistance in 2010. We projected that about 130,000 and 810,000 additional older households would have received public assistance in 2010 the absence of DC income and Social Security income receipt, respectively. In contrast to 2006, the greatest estimated impacts were associated with DB pension income receipt. Employing the mean dollar amount of $6,494 received by all older households with public assistance in 2010, we estimate that DB pension income receipt reduced claims on governmental public assistance from older households in 2010 by about $7.9 billion dollars. This amount, which does not include Medicaid expenditures, would represent about 6.4 percent of an estimated $123.6 billion in public assistance received by households with a head of any age in 2010 from the same programs included as means-tested public assistance income the SIPP data. These estimated aggregate savings are slightly smaller than the inflation-adjusted 2006 estimate of $8 billion, which represented about 8.5 percent of 2006 aggregate expenditures for all households.

While the estimated reduction in public assistance expenditures associated with DB pension receipt was smaller than in 2006, the estimated reduction of $5.3 billion in public assistance expenditures associated with Social Security receipt in 2010 is less than half of the $11.1 billion reduction estimated in 2006. Data presented earlier in Table 4 showed that receipt rates declined between 2006 and 2010 for both DB pension and Social Security income. However, while there were modest increases in mean and median DB pension income amounts received by recipient households between 2006 and 2010, these amounts declined among Social Security recipient households over the same four years. Furthermore, the data suggest that Social Security recipient households were just as likely as households without Social Security income to receive public assistance in 2010. This differs from 2006, where the rate of public assistance receipt among Social Security recipient households was nearly 4 percentage points lower than among older households without Social Security income (13.7 percent vs 10 percent).[31] While further study is required to understand the factors contributing to smaller impact of Social Security income on public assistance receipt, these data suggest that older households were less able to meet their economic needs with Social Security income in 2010 than in 2006.

Table 11: **The Pension Factor: Projected Changes in Older Households Receiving Public Assistance without DB, DC, or Social Security Income in 2006 and 2010**

	Older Households Receiving Public Assistance (millions)	Increase in Households with Public Assistance (millions)	Percent change	Aggregate Public Assistance Expenditures in 2010 (billions)	Increase in Public Assistance Expenditures (billions)	Percent change
Public Assistance Receipt						
Actual National SIPP Estimate 2006	3.43			$20.3		
Without DB Pension Income Receipt[a]		1.35	39.4%		$8.0	39.4%
Without DC Income Receipt		0.07	2.0%		$0.4	2.0%
Without Social Security Income Receipt		1.88	54.8%		$11.1	54.8%
Public Assistance Receipt						
Actual National SIPP Estimate 2010	4.04			$26.3		
Without DB Pension Income Receipt[a]		1.22	30.3%		$7.9	30.3%
Without DC Income Receipt		0.13	3.2%		$0.9	3.2%
Without Social Security Income Receipt		0.81	20.0%		$5.3	20.0%

Source: Analysis of data from the 2004 and 2008 SIPP.

a Results are derived from binary logit models with dummy variables indicating DB, DC, or Social Security receipt set to zero, respectively. See Technical Appendix.

CONCLUSION

This study provides an updated empirical analysis of the contribution of DB pensions to the economic welfare of older American households. While our data suggest that the economic well-being of many older American households declined between 2006 and 2010, they also suggest that DB pension income plays even a more vital role in reducing the risk of poverty and material hardships among older households in 2010 than in 2006.

Whereas the poverty rate among older households without DB pension income increased from 15.1 percent to 15.5 percent between 2006 and 2010, it fell from 2.4 percent to 1.7 percent among households with DB pension income. In 2010 the poverty rate among older households without DB pension income was more than nine times greater than the rate among older households that were recipients of DB pension income.

Although the rates of food insecurity, shelter, and health care hardships among older households with DB pension income increased between 2006 and 2010, DB pension income protected older families from the higher rates of material hardship experienced by their counterparts without pension income. The 2006 disparities in material hardship rates between older households with and without pension income were widened in 2010. DB pension recipient households remained much less reliant on public assistance than their counterparts without pension income in spite of a modest increase in their rate of public assistance receipt between 2006 and 2010. Even so, the rate of public assistance receipt among households with DB pensions was still less than one-third of the 16.4 percent receipt rate among older households without pension income in 2010.

Overall, our analyses suggest that DB pension income generally protected the economic welfare of many older households after the 2008 financial crisis. Moreover, it provided even greater protection to some more vulnerable subpopulations of older households. Our analyses of 2010 data suggest that common gender and racial disparities in rates of poverty, material hardships, and dependence on public assistance were greatly diminished, and in some cases nearly eliminated, among households receiving DB pension income in 2010.

Our empirical findings suggest that economic welfare protection that DB pension income offers to older American households remain strong in 2010. The study findings reaffirm the premise that the regular stream of income and spousal protection that pensions offer older American households provide them a much better chance of self-sufficient life in retirement with fewer economic hardships.

However, given the long-term trend of declining DB plan participation rates among workers for more than three decades, the decrease in rates of DB pension receipt among both older persons and older households between 2006 and 2010 suggests that we may be on the precipice of a sustained period of declining future rates of DB pension income receipt. Without alternative sources of retirement income that can improve the retirement readiness of American households, older American households in the future may face even greater risks of economic hardships and greater dependence on public assistance to meet their basic economic needs after retirement from the labor force.

Data Sources

The primary data source is the Survey of Income and Program Participation (SIPP), a representative national panel sample of the non-institutionalized U.S. civilian population. Panel respondents are interviewed at four-month intervals (waves) over a 3-4 year time span. Each interview solicits information on a core set of income, labor force, and program participation questions in addition to questions focused on specific topics such as pension plan coverage, adult well-being, employment history, and health. The focused topic questions are only asked once or twice during the multi-year span of the panel survey at selected interviews in the form of topical modules. Data for this study were drawn from the 2004 and 2008 SIPP panels. The 2006 data drawn from the 2004 SIPP panel, were those employed by Porell and Almeida (2009).[32] The 2010 data were drawn from the 2008 SIPP panel for this study.

Analytic File Construction

The 2010 analytic data file was constructed from the Wave 6 core file and two topical module files. Wave 6 core data for reference month 4 are first merged to the Adult Well-Being Topical Module 6.[33] Retirement and pension plan variables from the Pension and Retirement Plan Module 3 are then merged. Because of sample attrition, and the addition of new household members between waves 3 and 6 of SIPP panel interviews, there cannot be a complete one-to-one match of Wave 3 and Wave 6 respondents. Accordingly, the 2010 analytic file is comprised of the subset of respondents with records in both the Pension (Wave 3) and Adult Well-Being (Wave 6) topical modules. Lastly, the population weights for the subset of Wave 6 respondents retained after the merger of Wave 3 and Wave 6 data are adjusted to compensate for the net sample attrition in the final analytic file.

Study Populations

In the descriptive analyses “older persons” are defined as all individual respondents age 60 years or older. Older households are defined as all households where the householder is 60 years or older. The U.S. Census Bureau defines a householder as” the person (or one of the people) in whose name the housing unit is owned or rented (maintained) or, if there is no such person, any adult member, excluding roomers, boarders, or paid employees. If the house is owned or rented jointly by a married couple, the householder may be either the husband or the wife. The person designated as the householder is the "reference person" to whom the relationship of all other household members, if any, is recorded.”[34] This definition of older household excludes any household in which older person lives in a dependent living arrangement with a younger householder. This restriction is appropriate in light of this study’s objectives. For example, when an older person lives with the family of a householder who is his/her child, household income is more likely to reflect the financial resources of the child rather than the co-resident parent. Demographic attributes of the household such as age, gender, and race are those of the householder.

Defined Benefit Pension Status and Income

Receipt of a defined benefit (DB) pension is defined here as receiving pension income in the reference month from a former employer because of retirement, disability, or survivorship. A recipient must also expect to receive this income regularly for the remainder of his/her life. Similar to past research using SIPP data, payments from Social Security, withdrawals from IRA, Keogh and 401(k) plans, and lump sum pension distributions are not counted as DB pension income. Annual pension income is estimated by multiplying the amount in the reference month twelve. These annualized pension income amounts were then inflated or deflated by the Bureau of Labor Statistics Consumer Price Index (CPI) for the reference month and year to produce a constant dollars amount for April 2010.[35]

Pension receipt for persons is measured in two ways: (1) pension income received from one's own former employer only, and (2) pension income received from both one's own former employer and/or from the former employer of a current or decedent spouse. The spouse person identifier variable in SIPP core file records was used to merge spousal records with pension variables to all SIPP respondents 60 years old or older. Pension receipt for households includes pension income received from both the head of household's own former employer and/or from the former employer of a spouse.

Public and Private Pension Income

While public and private source of DB pension income cannot be distinguished in the SIPP Retirement and Pension Plan Coverage Topical Module data, seven types of DB pension income sources are reported in SIPP Core Interview data. Public pensions include: (1) Federal Civil Service or other Federal civilian employee pension, (2) U.S. military retirement, (3) state government, (4) local government, and (5) Railroad Retirement Board. Private pensions include: (1) company or union pension, and (2) other nongovernment retirement pensions.

Annual Household Income Quintiles

Annual household income is estimated by multiplying the reference month amount by twelve. The CPI is used to adjust this amount to reflect constant dollars for April 2010. Household income quintiles for 2010 are defined for all households as reported by the U.S. Census Bureau. The quintile definitions for 2010 are: (below $20,000) ($20,000-$38,040) ($38,040-$61,720) ($61,720-$100,065) ($100,065 and above).[36]

Poverty Class

The SIPP contains a household-level variable for the dollar amount of the U.S. Census federal poverty level (FPL) threshold. This threshold is based on family size, age of the householder (65 years and older versus under 65 years), and number of related children under 18 years old. This variable is used to classify each household in the sample into one of three poverty level classes: (1) *poor* income at or below the FPL, (2) *near-poor* income above the FPL but at or below 200% of the FPL, and (3) *not poor* income greater than 200% of the FPL.

Material Hardship Measures

Three material hardship measures are constructed from the SIPP Adult Well-Being Topical Modules. These measures were used by Porell and Almeida (2009)[37], and include hardships related to: inability to meet basic living expenses, inadequate food consumption, and unmet medical or dental needs.

A household is classified as having a *shelter hardship* if it reported that it experienced at least one of the following five hardships in the previous year: (1) did not pay the full amount of the rent or mortgage, (2) was evicted from one's home or apartment for not paying the rent or mortgage, (3) did not pay the full amount of the gas, oil, or electricity bills, (4) gas or electric company turned off service, or the oil company did not deliver oil because of payment problems, and (5) the telephone company disconnected service because payments were not made.

Food hardships are defined by a measure derived from a three-point food security scale formerly used by the U.S. Department of Agriculture (USDA).[38] The scale is constructed as a count of responses of yes, sometimes, or often to five questions about food-related hardships experienced because of lack of money over the last four months: (1) food we bought didn't last, (2) couldn't afford balanced meals, (3) cut size or skipped meals, (4) ate less than felt needed, and (5) didn't eat for a whole day. A household is classified as having a food hardship with two or more positive responses to these five questions.

A household is classified as having a *health care hardship* if it reported that in the previous year a household member did not see a doctor or dentist when a visit was needed.

Public Assistance Receipt and Amounts

The SIPP contains information about various types of cash and noncash forms of public assistance received by households, as well as the aggregated amount of cash and noncash assistance received. A binary variable (1,0) indicating the receipt of cash and/or noncash public assistance receipt was created from two constructed SIPP variables: *THTRNINC*, an aggregated total of household means-tested cash transfers for reference month, and *THNONCSH*, an aggregated total dollar value of noncash public assistance for the reference month. Means-tested cash assistance includes Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), and general assistance. Noncash public assistance includes Women, Infants, and Children Nutrition Program (WIC), food stamps, and energy assistance. While the SIPP contains information about Medicaid eligibility, it is not counted here as public assistance because the SIPP does not have information on dollar amounts of Medicaid reimbursements. The annual dollar amount of public assistance received is computed as twelve times the sum of cash and noncash public assistance in the reference month. Annualized public assistance amounts are adjusted to constant dollars for April 2010 with the CPI.

Multivariate Analyses

Four statistical models are estimated on a sample of 10,942 households with a householder age 60 years and older in 2010. The dependent variables for these models are listed below:

Public assistance	1=household receipt of cash and/or noncash assistance, 0=otherwise
Food hardship	1=household classified with a food insecurity with or without hunger under USDA scale, 0=otherwise
Health care hardship	1=household reports forgoing medical and/or dental services, 0=otherwise
Financial hardship	1= household reports one or more of 5 potential hardships associated with making ends meet, 0=otherwise.
Poverty status	1= poor, 2=near-poor, 3=not-poor.

Logistic regression models are estimated for the four binary dependent variables defined above. A multinomial logit model is estimated for the categorical dependent poverty status variable because statistical tests did not support the proportional odds assumption required for estimating an ordinal logit model specification. Observations are weighted by normalized population weights and the standard errors of coefficients are adjusted for the complex survey design of the SIPP by use of *svylogit* procedures in Stata V11.0.

The key independent variables of interest that are specified in all of the models are dummy variables indicating the receipt of any DB pension income, defined contribution (DC) income, and Social Security income by the householder and/or spouse. Control variables are also specified to account for other socio-demographic factors that should theoretically affect the risk of poverty, public assistance receipt, and material hardships among older households. To permit comparisons of 2006 and 2010

Table A-1: **Definitions of Independent Variables**

Variable Name	Definition
Retirement Income Receipt Status	
DB pension receipt	1= householder and/or spouse received DB pension income 0=no
DC income receipt	1= householder and/or spouse received DC income, 0=no
SS income receipt	1= householder and/or spouse received Social Security income, 0=no
Current and Past Employment Status	
Full-time employed	1= works 30 or more hours per week in current employment, 0=otherwise
Part-time employed	1= works less than 30 hours per week in current employment, 0=otherwise
Not Employed (omitted reference group)	1= does not work, 0=otherwise
Socio-Demographic Attributes	
Age	Age in years
Male	1=male, 0=female
Widowed	1=widowed, 0-otherwise
Divorced or separated	1=currently divorced or separated, 0=otherwise
Never married	1= never married, 0= otherwise
Married (omitted reference group)	1= married, 0=otherwise
NonHispanic Black	1= nonHispanic Black, 0=otherwise
Hispanic	1= Hispanic, 0=otherwise
Other Race	1=Other race, 0=otherwise
NonHispanic White (omitted reference group)	1- nonHispanic White, 0=otherwise
Born outside of US	1= born outside of the U.S., 0=born in U.S.
Household members	Count of household members
8 or fewer years of school	1= 8 or fewer years of schooling completed, 0=otherwise
9-11 years of school	1=9-11 years of schooling completed, 0=otherwise
High school graduate or GED	1=12 years of schooling, high school graduate, or GED, 0=otherwise
1-3 years of college	1=1-3 years of college completed, 0=otherwise
4+ years of college (omitted reference group)	1= 4 or more years of college completed, 0=otherwise
Geographic Residence	
Midwest	1= residence in Midwest Census Region, 0=otherwise
South	1= residence in South Census Region, 0=otherwise
West	1= residence in West Census Region, 0=otherwise
Northeast (omitted reference group)	1= residence in Northeast Census Region, 0=otherwise
Metropolitan area residence	1= metropolitan residence, 0=otherwise

Table A-2: **Sample Means for Variables in Statistical Models (n=10,942)**

Variable Name	Mean	95% Confidence Interval		
DB pension receipt	0.42	0.41	,	0.43
DC income receipt	0.06	0.06	,	0.07
SS income receipt	0.78	0.77	,	0.79
Full-time employed	0.20	0.19	,	0.21
Part-time employed	0.09	0.08	,	0.09
Age	71.2	71.0	,	71.4
Male	0.44	0.43	,	0.45
Widowed	0.29	0.28	,	0.30
Divorced or separated	0.18	0.17	,	0.19
Never married	0.01	0.01	,	0.02
Non Hispanic Black	0.10	0.09	,	0.10
Hispanic	0.06	0.06	,	0.07
Other race	0.04	0.04	,	0.04
Born outside of U.S.	0.09	0.09	,	0.10
Household members	1.77	1.75	,	1.79
8 or fewer years of school completed	0.07	0.07	,	0.08
9-11 years of school	0.08	0.07	,	0.09
High school graduate or GED	0.28	0.27	,	0.29
1-3 years of college	0.31	0.30	,	0.32
Midwest	0.23	0.22	,	0.24
South	0.37	0.36	,	0.38
West	0.20	0.20	,	0.21
Metropolitan area residence	0.77	0.74	,	0.79

empirical results, the same control variables used by Porell and Almeida (2009)[39] are specified in the statistical models used to make projections of the impacts of DB, DC, and Social Security receipt.[40] Table A-1 contains definitions for these variables and sample means are reported in Table A-2. Table A-3 contains estimated relative risk ratios from the multinomial logit model of poverty status. Odds ratio estimates from the logit models of public assistance receipt and three material hardship outcomes are reported in Table A-4.

Sensitivity Analyses

The statistical models should be fully-specified so that effects of omitted variables are not erroneously attributed to the effects of DB, DC, or Social Security income receipt. A particular concern may be raised about bias associated with the potential endogeneity of DB, DC, and Social Security income receipt in the statistical models. Some persons with stronger "tastes for saving" may self-select to work in jobs with DB pension or DC plans as a means of saving for retirement. If this is true, the estimated impacts of DB pension receipt from the statistical models may be overstated under the following reasoning. If persons with stronger preferences for retirement security tend to disproportionately obtain jobs with a DB pension plan and a measure of savings preference is not specified as a control variable in the statistical model, then the coefficient estimate for DB pension

Table A-3: **Multinomial Logit Model Results for Poverty Class Status (n=10,934)**

	Poor Relative to Not Poor		Near Poor Relative to Not Poor	
Variables	**Relative Risk Ratio**	**p-value**	**Relative Risk Ratio**	**p-value**
DB pension receipt	0.05	0.000	0.19	0.000
DC income receipt	0.20	0.000	0.59	0.000
SS income receipt	0.25	0.000	1.10	0.376
Full-time employed	0.08	0.000	0.18	0.000
Part-time employed	0.34	0.000	0.50	0.000
Age	1.01	0.016	1.02	0.000
Male	0.66	0.000	0.80	0.000
Widowed	1.43	0.004	1.79	0.000
Divorced or separated	2.21	0.000	2.04	0.000
Never married	1.42	0.178	1.13	0.602
Non Hispanic Black	2.32	0.000	1.49	0.000
Hispanic	1.89	0.001	1.22	0.182
Other race	2.34	0.000	1.41	0.031
Born outside of U.S.	1.36	0.018	1.22	0.048
Household members	0.57	0.000	0.74	0.000
8 or fewer years of school completed	8.04	0.000	5.16	0.000
9-11 years of school	4.86	0.000	3.90	0.000
High school graduate or GED	2.50	0.000	2.71	0.000
1-3 years of college	1.68	0.000	1.78	0.000
Midwest	0.76	0.038	0.93	0.431
South	0.94	0.619	1.01	0.908
West	0.66	0.005	0.76	0.007
Metropolitan area residence	0.65	0.000	0.75	0.000
Pseudo- R square	0.24			

receipt will not only reflect the true effect of DB pension income receipt, but also the effect a preference toward greater saving for retirement. The reasoning is that in the absence of having a DB pension plan, persons with a stronger "taste for saving" would accumulate greater retirement savings from other sources, such as greater personal savings, to compensate for the lack of a DB pension at retirement. As a consequence of this type of compensatory economic behavior, the projected impacts of DB pension income receipt on poverty, material hardships, and public assistance receipt derived from statistical models lacking a variable measuring savings preference would overstate these projected impacts. In other words, additional personal savings for retirement would offset some of estimated positive effects of retirement income receipt on economic welfare.

While empirical evidence concerning whether DB and DC plans actually increase total savings is inconclusive, sensitivity analyses were nevertheless performed to assess the stability of the empirical results. First, the models were re-estimated on a subsample of SIPP households in which the householder or his/her spouse retired from a job or business in the past. By restricting this subsample to retired households, it was possible to specify additional work history variables likely to affect economic welfare after retirement: pre-retirement annual household earnings, years worked at pre-retirement job, and years since retirement. The statistical models were re-estimated on data for the subsample of 6,059 older retired households Specification of additional pre-retirement work history variables in these models estimated on the subset of retired households only produced only modest changes in the estimated coefficients for DB, DC, and Social Security retirement income receipt dummy variables. The results did not provide any statistical evidence to suggest that the estimated DB pension income impacts are overstated.

The concern over endogeneity bias was also addressed by re-estimating the models with a two-step probit model instrumental variable estimation procedure (*ivprobit*) in Stata. A probit model of DB pension receipt is estimated in the first step. The binary dependent variable in this model distinguishes older households with DB pension income from those without such income. Additional variables that should theoretically help to distinguish DB pension income recipients are specified in this probit model, including dummy variables to distinguish among persons who: worked in different industries and occupations, were military veterans, lacked citizenship, did not speak English at home, lived in linguistic isolation, were severely or moderately disabled, and had no continuous work history. Predictions from this probit model are used to create an instrumental variable to replace the observed DB pension receipt variable in the statistical models described above. Instrumental variable estimation did not indicate that the estimated effects of DB pension receipt on economic welfare outcomes were upward-biased. However, some caution is still warranted because the variables tested were not particularly strong instruments. Addressing potential endogeneity bias with such instrumental variable estimation methods can produce fragile results without strong instruments (i.e., variables that directly affect DB pension receipt, but have no direct effect on economic welfare outcomes once pension receipt is controlled).

Estimating of the Impacts of DB, DC, and SS Income Receipt on Welfare Outcomes

The estimated coefficients from the statistical models described were used to derive estimates of the number of additional older households that were able to avoid poverty, material hardships, and dependency on public assistance due DB, DC, and Social Security income receipt.

These projected impacts on economic welfare outcomes were derived under a three-step procedure described below for public assistance receipt and DB pension income receipt. The same approach was used for other adverse welfare outcomes, and for estimating the impacts of DC and Social Security income receipt

1. Predicted values are obtained from the estimated model with actual SIPP respondent values for DB pension receipt. These predicted values were multiplied by SIPP population weights and summed to obtain a national estimate of the number of households with DB pensions receiving public assistance.

2. A second set of predicted values is then obtained. For these predictions, the DB pension receipt variable was set to zero for all households with DB pensions rather than their actual value of one. These predicted values were then multiplied by SIPP population weights and summed to obtain a national estimate of the number of households that would be expected to receive public assistance if no households had DB pension income.

3. Since DB pension receipt was negatively associated with public assistance receipt, the difference between these two predicted values is the national estimate of the additional number of households that would be expected to receive public assistance in the absence of DB pension income receipt.

The dollar impact of DB pension receipt of public assistance expenditures is then obtained by multiplying the estimate of additional households from step 3 by the mean annual amount of public assistance received by older households in 2010 from the study data, or $6,494. The estimated 2006 public assistance expenditure impacts of DB pension receipt reported in Table 11 are the same as those reported by Porell and Almeida (2009)[41] except that the sample mean public assistance amount received by older households of $5,373 in 2006 dollars was inflated by the CPI to produce a mean amount of $5,903 in 2010 dollars.

Table A-4: **Logistic Regression Results for Material Hardships and Public Assistance Receipt Outcomes (N=10,934)**

	Public Assistance		Shelter Hardship		Food Hardship		Health Hardship	
Variables	**Odds Ratio**	**p-value**	**Odds Ratio**	**p-value**	**Odds Ratio**	**p-value**	**Odds Ratio**	**p-value**
DB pension receipt	0.05	0.000	0.19	0.000	0.05	0.000	0.19	0.000
DC income receipt	0.20	0.000	0.59	0.000	0.20	0.000	0.59	0.000
SS income receipt	0.25	0.000	1.10	0.376	0.25	0.000	1.10	0.376
Full-time employed	0.08	0.000	0.18	0.000	0.08	0.000	0.18	0.000
Part-time employed	0.34	0.000	0.50	0.000	0.34	0.000	0.50	0.000
Age	1.01	0.016	1.02	0.000	1.01	0.016	1.02	0.000
Male	0.66	0.000	0.80	0.000	0.66	0.000	0.80	0.000
Widowed	1.43	0.004	1.79	0.000	1.43	0.004	1.79	0.000
Divorced or separated	2.21	0.000	2.04	0.000	2.21	0.000	2.04	0.000
Never married	1.42	0.178	1.13	0.602	1.42	0.178	1.13	0.602
Non Hispanic Black	2.32	0.000	1.49	0.000	2.32	0.000	1.49	0.000
Hispanic	1.89	0.001	1.22	0.182	1.89	0.001	1.22	0.182
Other race	2.34	0.000	1.41	0.031	2.34	0.000	1.41	0.031
Born outside of U.S.	1.36	0.018	1.22	0.048	1.36	0.018	1.22	0.048
Household members	0.57	0.000	0.74	0.000	0.57	0.000	0.74	0.000
8 or fewer years of school completed	8.04	0.000	5.16	0.000	8.04	0.000	5.16	0.000
9-11 years of school	4.86	0.000	3.90	0.000	4.86	0.000	3.90	0.000
High school graduate or GED	2.50	0.000	2.71	0.000	2.50	0.000	2.71	0.000
1-3 years of college	1.68	0.000	1.78	0.000	1.68	0.000	1.78	0.000
Midwest	0.76	0.038	0.93	0.431	0.76	0.038	0.93	0.431
South	0.94	0.619	1.01	0.908	0.94	0.619	1.01	0.908
West	0.66	0.005	0.76	0.007	0.66	0.005	0.76	0.007
Metropolitan area residence	0.65	0.000	0.75	0.000	0.65	0.000	0.75	0.000
Pseudo- R square	0.24				0.24			

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1 Vanderhein, J., Holden, S., and Alonso, L. 2009. "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2008." EBRI Issue Brief No. 335, and *ICI Perspective*, 15 (2), October

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3 Porell, F., and Almeida, B. 2009. *The Pension Factor: Assessing the Role of Defined Benefit Plans in Reducing Elder Hardships.* Washington, DC: National Institute on Retirement Security.

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5 Employee Benefit Research Institute (EBRI), Frequently Asked Questions about Benefits-Retirement Issues, "What are Trends in U.S. Retirement Plans?" Figure 1 (http://www.ebri.org/publications/benfaq/index.cfm?fa=retfaq14) accessed 2/28/2012.

6 For example, see Ghilarducci, T. (2006). *Future retirement income security needs defined benefit pensions.* (Washington, D.C: Center for American Progress), McDonnell, K. (2008). Retirement annuity and employment-based pension income, among individuals age 50 and over: 2006. EBRI Notes 29: (1), 1-11, and Porell and Almeida (2009), op cit.

7 These percentages were computed from 2010 SIPP data. In regions other than the West and South only about 6.7 percent of older persons were Hispanic or Other Race.

8 Nationally about 67 percent of DB pension recipients in 2010 received income from a former private employer in 2010. In Michigan and Indiana these percentages were 78 percent and 87 percent, respectively. Whereas about 40 percent of DB pension recipients received income from a former public sector job nationally, about 65 percent of pension recipients in Maryland received a public sector pension. Note that public and private sector percentages exceed 100 percent because a small fraction of recipients received both public and private DB pension income.

9 See for example, Ghilarducci (2006), op cit., Poterba, J., Venti, S., & Wise, S. (2007b).The changing landscape of pensions in the United States. Working Paper 13381 (Cambridge, MA: The National Bureau of Economic Research), and Bender, K. & Heywood, J.S. (2010). *Out of Balance? Comparing Public and Private Sector Compensation over 20 Years.* (Washington, D.C: National Institute on Retirement Security).

10 Government Accountability Office. 2010. *Management Oversight Needed to Ensure Accurate Treatment of State and Local Government Employees.* GAO-10-938. Washington, DC: Government Accountability Office.

11 Because of the regularity in the timing of Social Security and DB pension receipt, annual amounts were estimated based on snapshots of the amount reported in the most recent month of SIPP data. Since 401k,403b, and IRA distributions are likely to irregular in both timing and amounts, annual DC income amounts were derived by summing respondents' reported distributions over the previous twelve months. For further discussion of this approach see Anguelov,C., Iams, C., & Purcell, P.(2012), *Shifting Income Sources of the Aged*. Working paper, Social Security Administration.

12 Note that DB, DC, and SS income receipt are not mutually exclusive. Many households receive income from two or all three of these sources. The mean and median amounts are based on each subset of persons and their spouses, if any, who receive that type of income regardless of whether they receive income from the other sources.

13 Since the median is essentially the middle value of a distribution of income amounts ordered from smallest to largest, it is not affected by unusually large or small income amounts. When the sample mean is so much larger than the median as is the case here for DB and DC income, the median is more reflective of a typical amount than is the mean.

14 In addition to considerable anecdotal evidence of delayed retirement, employees have reported expectations of delayed retirement. See for example, Pearlman, B., Kenneally,K., & Boivie, I. (2011). *Pensions and Retirement Security 2011: A Roadmap for Policymakers.* (Washington, D.C.: National Institute on Retirement Security). However, it has also been argued that many older workers who lost jobs because of the 2008 financial crisis were actually forced to retire earlier than planned because of failure to find another job. See for example, Coile, C. & Levine, P. (2009). *How the Current Economic Crisis may affect Employment.* Working Paper 15395 (Cambridge, MA: National Bureau of Economic Research). Survey data on expected versus actual retirement ages among current retirees seems to bear this out. See for example, Copeland, C., Helman, R., VanDerhei, J., Mathew Greenwald & Associates. 2012. *The 2012 Retirement Confidence Survey: Job Insecurity, Debt Weigh on Retirement Confidence, Savings.* Issue Brief No. 369. Washington DC: Employee Benefit Research Institute.

15 Vanderhein, J., Holden, S., and Alonso, L. 2009. 401(k) Plan asset allocation, account balances, and loan activity in 2008. EBRI Issue Brief No. 335, and *ICI Perspective*, 15 (2), October.

16 Subjectivity is an obvious shortcoming of material hardship measures since there are no universally accepted standards for what constitutes a hardship.

17 See for example, Beverly. S.G. (2001b). Measures of material hardship: Rationale and recommendations. *Journal of Poverty 5*: (1), 23-41

18 Although households can be comprised of multiple families, the great majority of households in which the householder (similar to a head of household) is age 60 or older are comprised of only one family. Restricting the study sample to households with an older householder excludes older persons in dependent living arrangements with younger individuals, such as co-residence with a child. In such living arrangements, both family and household income amounts are unlikely to accurately reflect the level of resources allocated to the consumption needs of the older person. See the Technical Appendix for the definition of a householder.

19 The definition of a householder differs from the formal definition of a head of household previously employed by the U.S. Census Bureau. For exposition purposes we occasionally use the term "head of household" interchangeably with householder. In these situations the tern head is used to mean the householder.

20 In 2006 the USDA revised its food insecurity scale. The 2004 and 2008 SIPP contain the same five questions employed in the prior USDA food insecurity scale.

21 The "food insecurity with hunger" and "food insecurity without hunger" categories of the former USDA food insecurity scale were combined creating a single category of" food insecurity with or without hunger."

22 This differs from the findings of Porell and Almeida (2009) for 2006. They found that, on average, public assistance recipient households with DB pension income received about $1,121 (in 2010 dollars) less annually relative households without pension income. The reason for this discrepancy is not obvious since the relative rates of public assistance receipt between households with and without DB pension income were similar in both years.

23 These results are consistent with the empirical literature on racial differences in participation rates welfare programs even after adjustments are made for need factors. For example, see Kaiser. L. 2008. Why do low-income women not use food stamps? Findings from the California Women's Health Survey. *Public Health Nutrition* 11: (12), 1288-1295.

24 The decline in the rate of public assistance receipt among older households without pension income may be due, at least in part, to the two percentage point increase in the percentage of older households in which the householder worked at least 30 hours per week in 2010 (28.4 percent) than in 2006 (26.3 percent).

25 Recall that Table 5 showed that whereas 15.8 percent of older households without any DB pension income were classified as poor, only 1.7 percent of DB income recipient households were similarly classified. Although DB pension receipt should contribute to this disparity in poverty rates, it is unlikely to fully account for it. Relative to older households without any DB pension income in 2010, those with DB pension income were more likely to have a head that was male (46 percent vs 42 percent), married (54 percent vs 41 percent), had completed eight or fewer years of education (11 percent vs 4 percent), and had worked in a management/professional occupation (33 percent vs 23 percent). Heads of household without pension income were less likely to have little or no regular work history (3 percent vs 17 percent), to be divorced/separated (11 percent vs 22.percent), Black (9.6 percent vs 12.4 percent), Hispanic (2.6 percent vs. 6.1 percent), foreign-born (5 percent vs 12 percent), and live in a home where English is not regularly spoken (1 percent vs 5 percent). These data suggest that older households with DB pension income will have a lower risk of poverty than their counterparts without such income due to many factors other than pension receipt.

26 Other researchers have similarly employed pension dummy variables in statistical models of wealth accumulation. For example, see Gustman, A.L., & Steinmeier, T.L. (1998), Effects of pensions on savings: Analysis of data from the Health and Retirement Study. Working Paper 6681 (Cambridge, MA: The National Bureau of Economic Research). However, it has been argued that individuals with stronger "tastes for savings" will tend to seek out jobs with richer pension benefits. Since tastes for savings cannot be reliably measured and specified in statistical models, the positive correlation between unspecified measures of tastes for savings and having a pension plan will bias estimates of the effects of pensions on outcome measures. That is, the effects attributed to pensions will reflect the effects of both pensions and tastes for savings. Unfortunately, the basic premise that savers seek out jobs with retirement benefits cannot yet be tested empirically with any rigor without a reliable measure of tastes for savings. See Gale, W. 1999. *The Impact of Pensions and 401(k) Plans on Saving: A Critical Assessment of the State of the Literature*, Washington, D.C.: The Brookings Institution and Munnell, A.H.,and Sunden, A. 2004. *Coming Up Short: The Challenge of 401(k) Plans.* Washington, DC: Brookings Institution Press for discussions of the issue and references for individual empirical studies. Similar to other research, we have no measure of tastes for savings. The best we can do to lend credibility to our results is to specify as many covariates in our model as theory and data permit, and to perform sensitivity analyses. These are discussed in the Technical Appendix.

27 Impacts on poverty status were also estimated by subtracting the received amount of retirement income from total household income and comparing the residual household income to the FPL for each household. The alternative estimates for DB and DC pension income are very similar to those reported here. For example, without DB pension income an additional 4.65 million older households are classified as poor or near-poor if Social Security income is subtracted from their household income. However, the alternative subtraction method produces much greater estimated impacts of Social Security income receipt on poverty status. Subtracting Social Security income from total household income increases the number of older households classified as poor by about 10.4 million. This amount is more than double the estimate obtained from the statistical model. Since Social Security comprises such a large proportion of household income its subtraction from household income will naturally place many older households in poverty. The estimated impacts of Social Security reported in Table 9 control for differences in household characteristics that should affect household income. These estimates are based on expected differences in household income between otherwise identical older households with and without Social Security income. The smaller estimated impact of Social Security income receipt is presumably the result of "otherwise identical" households having other sources of income that would offset the some of the loss of Social Security income.

28 The much smaller impacts of DC versus DB income receipt are due to a number of factors, including a lower prevalence rate of DC income receipt, greater income from other sources among DC income recipients, and differences in household characteristics that affect expected income.

29 The estimated coefficients for DC income and Social Security receipt were also smaller than those for DB pension receipt. Since theoretically the risk of material hardships should be lower among households with DC income and Social Security income, there may be insufficient statistical power in the study sample to discern their more modest impacts on hardship risk.

30 The estimates for food hardships for 2006 in Table 10 differ from those reported by Porell and Almeida (2009) because hardships are defined differently. The estimates and projections in Table 10 are based on a stricter classification of "food insecurity." Whereas the food hardship projections reported by Porell and Almeida only required that a household report one or more of five potential indicators of a food hardship, the USDA food insecurity measure used here requires that a household report of two or more of the same five indicators.

31 In contrast, the rate of public assistance receipt among DB pension recipient households was only about one-third of the rate among older households without pension income in both years.

32 Porell and Almeida (2009), op cit.

33 Each survey wave contains data for four months. Since topical module questions are asked in reference month 4 of any survey wave, core file data were selected for the same reference month.

34 The definition of householder and other terms used by the U.S. Census Bureau can be found on the following link http://www.census.gov/cps/about/cpsdef.html. Although use of the term "head of household" was discontinued in 1980, in the main body of the report we occasionally use the term in phrases such as "households headed by women." In these situations we mean households with a female householder.

35 See ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt.

36 See the U.S. Census Bureau, Current Population Survey, *2011 Annual Social and Economic Supplement.* http://www.census.gov/hhes/www/cpstables/032011/hhinc/new01_001.htm.

37 Porell and Almeida (2009), op cit.

38 The U.S. Department of Agriculture no longer uses the food insecurity measure employed here. It revised its food insecurity scale in 2008. The former USDA scale employed here is based on the five questions noted above that are contained in the 2008 SIPP. While the USDA scale distinguishes between food insecurity with hunger and without hunger, these categories are combined together yielding a measure of "food insecurity."

39 Porell and Almeida (2009), op cit.

40 Some additional variables were specified in models that were estimated to test the sensitivity of the empirical results.

41 Porell and Almeida (2009), op cit.

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CENTER for RETIREMENT RESEARCH at BOSTON COLLEGE

State and Local Pension Plans

Number 25, August 2012

LEGAL CONSTRAINTS ON CHANGES IN STATE AND LOCAL PENSIONS

*By Alicia H. Munnell and Laura Quinby**

Introduction

State and local government pension reform has become a front-burner issue in the wake of the economic crisis, which sharply reduced funded ratios for most plans. Policymakers have responded primarily by raising employee contributions for all workers and/or reducing benefits for new workers. One option that has largely been off the table is reducing *future* benefits for current workers. The reason is that many states face legal constraints on their ability to make such changes. These constraints not only tie the hands of pension reformers but also accord public employees greater protections than their private sector counterparts.

This *brief* provides a comprehensive overview of the legal environment in which state and local plans operate with respect to benefit protections for current workers. The analysis relies on a thorough review of secondary sources and consultations with plan legal counsels.

The *brief* is organized as follows. The first section covers the major types of legal protections that apply to public pension benefits. The second section suggests an approach for increasing the flexibility of plan sponsors to alter benefits. The final section concludes that it may be less difficult to make such changes than the conventional wisdom suggests.

Pension Protections for Current Workers

The existing legal constraints on changing future benefits for current workers were a reaction to a period when pensions were viewed as a gratuity that the state

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could withdraw or change at any time. Since federal laws regulating pensions do not apply to public sector plan changes, states were responsible for determining their own benefit protections for public sector workers.[1] The legal approaches to protect public pensions vary across states.

Most states protect pensions under a contracts-based approach. The Federal Constitution's Contract Clause and similar provisions in state constitutions prohibit a state from passing any law that impairs existing public or private contracts. To determine whether a state action is unconstitutional under the Contract Clause, the courts apply a three-part test. First, they determine whether a contract exists. This process determines when the contract is formed and what it protects. Second, the courts determine whether the state action constitutes a substantial impairment to the contract. If the impairment is substantial, then the court must determine whether the action is justified by an important public purpose and if the action taken in the public interest is reasonable and necessary. This approach sets a high bar for changing future benefits, presenting a serious obstacle to pension reform.

A handful of states that protect pensions under the contract theory also have state constitutional provisions that expressly prevent the state from reducing benefits that participants expected at the time of employment. Illinois and New York have such a provision. Alaska has language that specifically applies only to accrued benefits, but the courts have interpreted the provision to protect all benefits from the time participants enroll. Arizona's language is less clear, but prior court rulings suggest that the protection extends to future as well as accrued benefits. In these states, changing benefits for existing employees is virtually impossible without amending the state constitution. In contrast, Hawaii, Louisiana, and Michigan have constitutional provisions that have been interpreted as protecting only benefits earned to date.

Table 1 categorizes the states by the extent to which core benefit accruals are protected and the legal basis for that protection.[2] It is necessary to separate core benefits from the cost-of-living adjustment (COLA) because recent court decisions suggest that the two components merit different treatment. Most states that protect core benefits under the contract theory do not have a state constitutional provision, but rather have statutes that expressly adopt the contract theory or judicial decisions that have ruled the relationship to be contractual. Interestingly, for 13 states the protections apply only once benefits are vested.[3] Eight states protect benefits only once the employee is eligible for retirement.[4] While New Jersey and Rhode Island have been classified in Table 1 as states where future benefits may be protected, they have changed future core benefits for current employees and have court cases pending regarding these changes.

California and several other states that fall in the contract group have attempted to introduce some flexibility by expanding the interpretation of the third part of the three-part test for Contract Clause constitutionality – that the change be "reasonable and necessary." Under the expanded test, the change could be reasonable and necessary either if it achieves an important

Table 1. Legal Basis for Protection of Public Pension Rights under State Laws

Legal basis	Accruals protected			
	Past and future	Past and maybe future	Past only	None
State constitution	AK, IL, NY	AZ	HI, LA, MI	
Contract	AL, CA, GA, KS, MA, NE, NV, NH, ND, OR, PA, TN, VT, WA, WV	CO, ID, MD, MS, NJ, RI, SC	AR, DE, FL, IA, KY, MO, MT, NC, OK, SD, UT, VA	
Property	ME, WY	CT, NM, OH	WI	
Promissory estoppel[a]	MN			
Gratuity				IN, TX[b]

[a] Promissory estoppel is the protection of a promise even where no contract has been explicitly stated.
[b] This gratuity approach applies only to state-administered plans. Accruals in many locally-administered plans are protected under the Texas constitution.
Sources: Cloud (2011); Monahan (2010); National Conference on Public Employee Retirement Systems (2007); Mumford and Pareja (1997); Reinke (2011); Staman (2011); Simko (1996); and consultations with plan legal counsels when accompanied by a decisive court ruling.

public purpose – the conventional test – or if the disadvantages are accompanied by new advantages. In the end, however, the ability to modify pensions in these states hinges on when the contract is deemed to exist. States where the contract is found to exist at the time a worker is hired have little freedom to change benefits. States where the contract is found to exist at retirement have considerably more flexibility.

Six states have adopted a property-based approach for protecting pensions. To the extent that pension benefits are considered property, they cannot be taken away without due process according to the Fifth and Fourteenth Amendments to the Constitution. Most of the challenges to state action have not been successful. Courts have generally found amendments to public pension plans to be "an adjustment to the benefits and burdens of economic life" rather than the taking of private property without just compensation.[5] Thus, state officials have much more freedom to adjust pensions in states that have taken the property-based approach to pension rights.

For the vast majority of states, however, changing future benefits for current employees is extremely difficult. The exception, as noted above, appears to be the COLA. In four cases – Colorado, Minnesota, New Jersey, and South Dakota – a modification of the COLA was challenged in court, and the court upheld the change. The early decisions in Colorado and Minnesota laid out the rationale for allowing COLA suspensions.[6] In Colorado, where the decision is currently under appeal, the judge found that the plaintiffs had no vested contract right to a specific COLA amount for life without change and that the plaintiffs could have no reasonable expectation to a specific COLA given that the General Assembly changed the COLA formula numerous times over the past 40 years. In Minnesota, the judge ruled both that the COLA was not a core benefit and that the COLA modification was necessary to prevent the long-term fiscal deterioration of the pension plan. Both these decisions clearly imply that core benefits are protected.

Expanding the Flexibility to Change Pension Benefits

The protection of future accruals of core benefits serves to lock in any benefit expansions, limiting policymakers' ability to respond to changing economic conditions. For example, employees covered by the California Public Employees' Retirement System (CalPERS) will continue to earn full benefits at age 55, an age introduced in a benefit expansion during the heady days of the 1990s. Few argue that core benefits earned to date based on such an age should be changed. Current workers accepted public employment with the understanding that they were accruing pension benefits at a certain rate, and remained employed with that understanding. But future benefits, much like future payroll, should be allowed to vary based on economic conditions. That is, public officials should be able to change future benefits for current CalPERS workers.

Such increased flexibility for public employers would accord their employees the same protections as workers in the private sector. The Employee Retirement Income Security Act of 1974 (ERISA), which governs private pensions, protects accrued benefits but allows employers to change the terms going forward.[7]

In Illinois and New York, such a change would require a constitutional amendment. In other states, the challenge is to narrow the definition of the contract. Here the burden would fall on the legislature and the courts. First, enacting legislation that the contract is created when the employee performs the service, would establish an ERISA-type standard.[8] Second, if this legislation is challenged, the courts would then need to be persuaded to adopt a more flexible standard in light of changed conditions, just as they once abandoned the gratuity theory in favor of a contract-based approach. In fact, adopting a more flexible version of the contract approach would be less dramatic than shifting theories.

More flexibility to change public pensions could make reforms fairer.

As noted above, New Jersey and Rhode Island have taken the first step by passing legislation that reduces core benefits for current workers. But the courts have yet to rule on the legality of these changes. A failure to permit such changes, however, would have serious consequences. First, limiting pension reductions to new workers reduces pension costs only slowly over time. Second, exempting current workers from cuts creates a two-tiered compensation system under which workers doing similar jobs would receive different amounts based solely on when they were hired. Such an outcome could undermine morale among employees and raise challenges for managers. Finally, allowing public employees to enjoy greater protections than their private sector counterparts is perceived by many as unfair.

Conclusion

Currently, policymakers grappling with underfunding in state and local pension plans are constrained in their ability to fairly share the burdens of reform, with sacrifices falling much more heavily on new workers than on current workers. Changing the status quo will likely require both legislative action and legal argument. In many states, a key challenge is narrowing the current definition of the employer-employee contract to establish that the contract is created when the employee performs the service. Such a standard would be much clearer than the morass of provisions that currently exists across the states, would enable state officials to undertake needed reforms, and would put public sector workers on an even footing with those in the private sector.

Establishing an ERISA-type standard, which would need to happen on a state-by-state basis, should be achievable because the protection accorded pension benefits is less embedded in state constitutions and more open to interpretation than commonly perceived. At a minimum, when sponsors institute changes for new employees, they should adopt the ERISA approach to cover these employees going forward.

Endnotes

1 The Employee Retirement Income Security Act of 1974 (ERISA), which governs plans in the private sector, does not cover state and local plans at all. While the Internal Revenue Code does specify – for public plans as well as private plans – the requirements that plans must meet to qualify for favorable tax treatment, it specifically exempts state plans from the "anti-cutback" rule, which precludes amendments that would decrease benefits already accrued.

2 The sources of information used to classify each state in Table 1 appear in the Appendix. In some cases, the sources provide conflicting guidance on how to classify a given state. To offer a clear standard for the reader, the hierarchy among the sources is as follows. Preference was given to information provided by a plan's legal counsel when accompanied by a decisive court ruling. If no information was provided, Monahan (2010) was the primary source. For states not covered in Monahan and where no information was received from the plans, the National Conference on Public Employee Retirement Systems' (NCPERS) 2007 analysis was the primary source. The only exception was New Hampshire, where recent developments suggest the NCPERS information is now outdated (see *The Associated Press* 2012).

3 The 13 states that protect only vested benefits are: Alabama, Alaska, California, Connecticut, Florida, Indiana, Louisiana, New Hampshire, New Mexico, North Carolina, Ohio, Oklahoma, and Tennessee. Vesting usually occurs within five years. In Indiana, protections apply only to the state's voluntary contributory plans; accruals under the state's mandatory non-contributory plans are not protected since they are viewed as a gratuity.

4 The eight states that protect benefits only once the employee is eligible for retirement are: Arkansas, Delaware, Iowa, Kentucky, Missouri, Montana, Utah, and Virginia.

5 *Pineman v. Fallon,* 842 F.2d 598 (2nd Cir. 1988).

6 In Colorado, 2010 legislation reduced the COLA for 2010 from 3.5 percent to the lesser of 2 percent or the average of the CPI-W for the 2009 calendar year (which resulted in a zero COLA for 2010) and a maximum of 2 percent thereafter (linked to investment returns) for current and future retirees. In Minnesota, in 2010 the state reduced the COLA for the State Employees' Retirement Fund from 2.5 percent to 2 percent and for the General Employees' Retirement Plan from 2.5 percent to 1 percent. The COLA for the Teachers' Retirement Association was suspended between 2011 and 2012, and reduced from 2.5 percent to 2 percent thereafter.

7 The Pension Protection Act of 2006, which amended ERISA, allows multi-employer plans that are severely underfunded to modify certain types of previously accrued benefits that are not part of the core pension benefit (such as early retirement subsidies and disability benefits not yet in pay status). These types of ancillary benefits are outside the scope of this *brief*.

8 The ERISA standard is appealing because it would make the protections in the public sector consistent with those in the private sector. But currently accrued benefits could be protected in many ways (see Schieber 2011). For example, benefit credits earned to date could be applied to a worker's projected final salary rather than his salary at the time that the plan is terminated or the formula changed.

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APPENDIX

Appendix. Sources Used to Classify States by Legal Protection for Pensions

State	Source(s)
AL	NCPERS
AK	Mumford and Pareja; NCPERS; Staman
AZ	Monahan; NCPERS; Staman
AR	Monahan; plan legal counsel (consistent)
CA	Monahan; Mumford and Pareja; Staman
CO	Cloud; Monahan; NCPERS; Reinke
CT	NCPERS; Reinke
DE	NCPERS
FL	NCPERS
GA	NCPERS; plan legal counsel (decisive)
HI	NCPERS; Staman
ID	NCPERS
IL	NCPERS; Staman
IN	Monahan; Mumford and Pareja; NCPERS; Staman; plan legal counsel (decisive)
IA	NCPERS
KS	Monahan; Mumford and Pareja
KY	NCPERS
LA	Monahan; NCPERS
ME	Monahan; NCPERS
MD	NCPERS
MA	Monahan; NCPERS
MI	Monahan; NCPERS; Staman
MN	NCPERS; Reinke
MS	NCPERS
MO	NCPERS
MT	NCPERS
NE	Monahan; NCPERS
NV	Mumford and Pareja; NCPERS; plan legal counsel (decisive)
NH	*The Associated Press*; NCPERS
NJ	Method; NCPERS
NM	Monahan; NCPERS; Staman
NY	Monahan; Mumford and Pareja; NCPERS; Staman
NC	Monahan; NCPERS
ND	Mumford and Pareja; NCPERS
OH	Monahan; NCPERS; Staman
OK	Monahan; Mumford and Pareja; NCPERS

State	Source(s)
OR	Monahan; NCPERS
PA	NCPERS; Simko; plan legal counsel (decisive)
RI	NCPERS
SC	NCPERS
SD	NCPERS
TN	NCPERS
TX	Monahan; plan legal counsel (decisive)
UT	NCPERS
VT	Monahan; NCPERS
VA	NCPERS
WA	Monahan; NCPERS; Simko
WV	Monahan; NCPERS
WI	NCPERS
WY	NCPERS

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