Agenda

ND Teachers' Fund for Retirement
Board Meeting

Thursday, January 23, 2014
1:00 pm

Peace Garden Room, State Capitol
Bismarck, North Dakota

1. Call to Order and Approval of Agenda - Pres. Gessner
2. Approval of Minutes of October 24, 2013 Meeting – Pres. Gessner
3. Board Education: Open Records/Open Meetings – Jan Murtha, AGO
4. Annual Pension Plan Comparisons Report – Fay Kopp
5. Annual Retirement Trends Report – Shelly Schumacher
6. 2015 Legislative Planning – Fay Kopp
7. SIB Update – Dave Hunter, CIO/ED
8. RIO Staffing Update – Dave Hunter, CIO/ED
9. GASB Implementation Plan – Fay Kopp
10. IRS Plan Qualification Review – Fay Kopp
11. 2013 CAFR and PPCC Award – Fay Kopp
12. Trustee Education – Fay Kopp
13. Consent Agenda
14. Other Business
15. Adjournment

Next Board Meeting: March 27, 2014

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

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
OCTOBER 24, 2013, BOARD MEETING

BOARD MEMBERS PRESENT:	Mike Gessner, President Clarence Corneil, Trustee Kim Franz, Trustee Rob Lech, Trustee Mel Olson, Trustee Kelly Schmidt, State Treasurer
STAFF PRESENT:	Paula Brown, Retirement Programs Specialist Estelle Kirchoffner, Membership Specialist Fay Kopp, Interim Executive Director Darlene Roppel, Retirement Assistant Shelly Schumacher, Retirement Program Manager Dottie Thorsen, Auditor Gary Vetter, Information Systems Supervisor Susan Walcker, Investment Accountant Denise Weeks, Retirement Programs Specialist
OTHERS PRESENT:	Janilyn Murtha, Attorney General's Office Kim Nicholl, Segal Consulting Stuart Savelkoul, ND United Matt Strom, Segal Consulting
ABSENT:	Kirsten Baesler, State Superintendent

CALL TO ORDER:

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the board meeting to order at 1:00 p.m. on Thursday, October 24, 2013, at the State Capitol, Peace Garden Room, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: PRESIDENT GESSNER, MR. CORNEIL, MRS. FRANZ, MR. LECH, MR. OLSON, AND TREASURER SCHMIDT.

Supt. Baesler was absent.

APPROVAL OF AGENDA:

The Board considered the meeting agenda.

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

AYES: MR. CORNEIL, TREASURER SCHMIDT, MR. LECH, MRS. FRANZ, MR. OLSON, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

MINUTES:

The Board considered the minutes of the regular board meeting held September 26, 2013.

TREASURER SCHMIDT MOVED AND MR. LECH SECONDED TO APPROVE THE MINUTES OF THE REGULAR TFFR BOARD MEETING HELD SEPTEMBER 26, 2013, AS PRESENTED.

AYES: MR. LECH, MR. OLSON, TREASURER SCHMIDT, MR. CORNEIL, MRS. FRANZ, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

2013 VALUATION REPORT:

Ms. Kim Nicholl, Senior Vice President, and Mr. Matthew Strom, Consulting Actuary, Segal Consulting, presented TFFR's Actuarial Valuation as of July 1, 2013. Copies of the report and presentation are on file at the Retirement and Investment Office (RIO).

The primary purposes of the actuarial valuation are to report the Fund's actuarial assets, calculate the Fund's liabilities, determine the annual required contribution (ARC) for fiscal year (FY) 2014, determine the funding policy actuarially determined contribution (ADC), provide information for the annual financial statements, and identify emerging trends. Ms. Nicholl and Mr. Strom provided an overview of the valuation process; reviewed actuarial assumptions and methods; explained the reasons and process of doing a 5-year experience study; and presented the 2013 valuation highlights.

The valuation report reflects member contribution increases from 9.75% to 11.75% and employer contribution increases from 10.75% to 12.75% on July 1, 2014. The rates will revert to 7.75% for both members and employers once the funded ratio reaches 100%.

The market value of TFFR assets (MVA) increased from $1.654 billion (6/30/12) to $1.839 billion (6/30/13), with an investment return of 13.4% for the year ending 6/30/13.

TFFR's Actuarial Accrued Liability (AAL) increased from $2.872 billion as of June 30, 2012, to $2.997 billion as of June 30, 2013. The Unfunded Actuarial Accrued Liability (UAAL) increased from $1.124 billion to $1.235 billion. The funded ratio decreased from 60.9% to 58.8% based on the Actuarial Value of Assets (AVA). On a market value basis, the funded ratio increased from 58% to 61%.

The ARC increased from 9.49% of payroll to 10.26%. Going forward, this will be referred to as the Actuarially Determined Contribution (ADC). Compared to the 10.75% employer contribution, this results in a contribution sufficiency of 0.49%. The effective amortization period is 28 years.

Mr. Strom also presented estimated funded ratio projections for 30 years based on FY14 investment return scenarios ranging from -24% to +24%. Projections show funding recovery is expected to occur gradually over time, due to the legislative changes approved in 2011. 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.

After Board discussion and questions,

MR. OLSON MOVED AND MR. CORNEIL SECONDED TO ACCEPT THE 2013 VALUATION REPORT.

AYES: TREASURER SCHMIDT, MR. CORNEIL, MRS. FRANZ, MR. OLSON, MR. LECH AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

GASB, MOODY'S AND OTHER PENSION ISSUES:

Ms. Nicholl and Mr. Strom reviewed the two new accounting statements the Governmental Accounting Standards Board (GASB) recently approved. GASB 67 replaces GASB 25. It provides for accounting with respect to the TFFR plan, effective fiscal year July 1, 2013, to June 30, 2014. GASB 68 replaces GASB 27. It provides for the financial reporting by employers/school districts with respect to TFFR, effective fiscal year July 1, 2014, to June 30, 2015.

According to Segal, funding/contribution reporting requirements will be different than accounting/financial reporting requirements under the new GASB standards. The net pension liability (NPL) will be placed in the footnotes of TFFR financial statements and the employer/school district's balance sheet. Each employer/school district will also be required to disclose in their financial statements, their proportionate share of net pension liability, pension expense, and deferred outflows and deferred inflows of resources related to pensions. The proportionate share for each employer/school district will be allocated based on total TFFR covered payroll. Segal provided examples of sample calculations for a large employer and a small employer.

A copy of this presentation is on file at RIO.

Board discussion and questions followed.

The board recessed at 3:05 p.m. and reconvened at 3:15 p.m.

LEGISLATIVE UPDATE:

Mrs. Fay Kopp, Interim Executive Director and Chief Retirement Officer, informed the board of the Legislative Employee Benefits Program Committee (LEBPC) meeting to be held on November 6, 2013. The Public Employee Retirement System (PERS) and TFFR valuations will be presented by Segal at this meeting, along with a presentation on GASB changes. The Legislative Government Finance Committee will meet on November 7, 2013. The agendas and information will be sent to the Board as it becomes available.

Board discussion followed.

2011 LEGISLATIVE IMPLEMENTATION:

Mrs. Shelly Schumacher, Retirement Program Manager, gave an update on the implementation of the 2011 Legislative changes. Since the last report in May 2013, all the required programming has been completed to implement the legislative changes. The only remaining change is for employers to update their payroll systems to reflect the last contribution increase that becomes effective July 1, 2014. The employers also have to complete a new Employer Payment Plan form.

ANNUAL TFFR ENDS AND STATISTICS REPORT:

Mrs. Schumacher presented the annual TFFR ends and statistics report for the year ended June 30, 2013. She provided information on employers and members, collections and payments of contributions, employer and member outreach programs participation, service purchases, tier membership, service retirement, disability retirement, option usage, retiree statistics, re-employed retirees, and employer payment plan models. A copy of the report is on file at RIO. After discussion,

MRS. FRANZ MOVED AND MR. OLSON SECONDED TO APPROVE THE ANNUAL TFFR ENDS AND STATISTICS REPORT.

AYES: MRS. FRANZ, MR. CORNEIL, MR. LECH, MR. OLSON, TREASURER SCHMIDT, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

ANNUAL TFFR PROGRAM AUDIT REPORT:

Mrs. Dottie Thorsen, RIO Auditor, presented the annual TFFR program internal audit review for the year ended June 30, 2013. Mrs. Thorsen reported 45 school district audits were completed this year. Thirty-eight were in compliance, one was generally in compliance, and six were not in compliance. Due to significant reporting problems, onsite work was conducted for two of the audits.

Other audits conducted during the year included a benefits payments audit and quarterly file maintenance audits.

The annual financial audit of RIO for the year ended June 30, 2013, was conducted by independent auditors from the accounting firm CliftonLarsonAllen. The report will be presented at the SIB Audit Committee meeting to be held November 22, 2013.

Due to the retirement of the internal audit supervisor, adjustments to the 2013-14 work plan will be made since fewer audits are expected to be completed in the upcoming year.

A copy of Mrs. Thorsen's report is on file at RIO. After discussion,

TREASURER SCHMIDT MOVED AND MR. LECH SECONDED TO APPROVE THE ANNUAL TFFR PROGRAM AUDIT REPORT.

AYES: MR. OLSON, MR. LECH, MRS. FRANZ, MR. CORNEIL, TREASURER SCHMIDT, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

SIB SEARCH COMMITTEE UPDATE:

Treasurer Schmidt gave an update on the State Investment Board (SIB) Search Committee activities. The employment offer that was made to the top finalist for the Executive Director (ED)/Chief Investment Officer (CIO) position was withdrawn due to concerns raised during negotiations. The second finalist is scheduled to make another presentation to the SIB on October 25, 2013.

CONSENT AGENDA:

MR. LECH MOVED AND MRS. FRANZ SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDES ONE DISABILITY APPLICATION - 2013-15D.

AYES: MRS. FRANZ, MR. OLSON, TREASURER SCHMIDT, MR. LECH, MR. CORNEIL, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

OTHER BUSINESS:

The next board meeting will be held on January 23, 2014.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 4:10 p.m.

TFFR CENTENNIAL CELEBRATION

The TFFR Board and RIO staff celebrated TFFR's centennial following adjournment of the meeting. Mrs. Kopp presented a slide show which highlighted TFFR's 100-year history from 1913-2013. Cake was served.

Respectfully Submitted:

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

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Darlene Roppel
Reporting Secretary

MEMORANDUM

TO: TFFR Board

FROM: Fay Kopp

DATE: January 16, 2014

SUBJ: Board Education: Open Meetings and Open Records

Jan Murtha, Assistant Attorney General and TFFR legal counsel, will provide board education on an important topic for public officials: open records and open meetings.

Enclosed is a copy of Jan's presentation and related material from the Attorney General's Office on that topic, and other areas of interest to public pension plan trustees.

Enclosure

Open Meetings & Records 2014

Teachers' Fund For Retirement Board Education.

1/23/14

Who is subject to Open Record and Meeting Laws?

- "Public Entities" – N.D.C.C. § 44-04-17.1(13):
  - Public or governmental bodies, boards, bureaus, commissions, or agencies of the state or any political subdivision, including any entity:
    - created or recognized by Constitution, state statute, resolution, ordinance, rule, by law, order of the governor, etc.
    - supported by or expending public funds
    - acting as an agent or agency of a public entity performing a governmental function on behalf of the public entity

Basics of Open Meetings

- **Quorum** of
- **Governing body**
- Of a **public entity**
- Discussing **public business**
- Is a **meeting**

N.D.C.C. § 44-04-17.1(9) definition of "meeting"

“Public Business”

- “all matters that relate or may foreseeably relate in any way to …the performance of the public entity’s governmental functions, including any matter over which the public entity has supervision, control, jurisdiction, or advisory power; or…the public entity’s use of public funds.”

N.D.C.C. § 44-04-17.1(12)

Exceptions:

- Meetings of national, regional, or state associations.
- Chance or social gatherings.
- Delegation to one person – one person is not a committee.

N.D.C.C. § 44-04-17.1(9)(b)

There are no exceptions for:

- **Committees**: two or more people acting collectively pursuant to authority delegated to that group by the governing body.
- Did the governing body delegate any sort of authority?
- Is the committee doing something the governing body could do itself?

It doesn't matter…..

- If the committee doesn't have final authority;
- If the committee is just "brainstorming" or "factfinding;"
- If the committee is only going to recommend something to the governing body.

A meeting can happen…

- By conference call;
- At a restaurant;
- On very short notice;
- Over video conference;
- By e-mail.

Precautions

- Do not hit "reply all."
- Do not conduct telephone straw polling.
- Do not hold serial meetings – less than a quorum is not ok if the smaller gatherings collectively constitute a quorum and if the members hold the gatherings for the purpose of avoiding the open meetings law. N.D.C.C. § 44-04-17.1(9)(a)(2).

Notice: What should it say?

- Time, date, and location of the meeting;
- Topics to be discussed;
- Notice of any executive session.

- The public should be able to read the notice and understand what the governing body is planning to discuss. Don't be vague.

N.D.C.C. § 44-04-20

Where do you put it?

- At the main office;
- Appropriate central location: city auditor, county auditor, secretary of state <u>OR put on public entity's website</u>;
- Location of the meeting;
- Give to anyone who has requested it.

- *Myth: publishing of notice*

Two kinds of meetings:

- **Regular**
- Agenda should contain all topics known at the time of drafting the notice
- May discuss items not on the agenda at the meeting

- **Special**
- Can only discuss the items on the notice
- Provide notice to the official newspaper

Executive sessions
N.D.C.C. § 44-04-19.2

- To discuss confidential information – no motion necessary.
- To discuss exempt information – need motion.
- Most common: Attorney consultation and negotiation. (N.D.C.C. § 44-04-19.1)
- Most common violation: closing meeting to discuss personnel matters!

Executive session procedure:

- Convene in open meeting;
- Announce in open meeting the topics to be discussed and legal authority;
- Record the session (keep for 6 months);
- Note time of executive session and who attended in minutes;
- Only discuss topics in announcement;
- Final action in open meeting.

N.D.C.C. § 44-04-19.2(2)

Minutes of Meetings

- Must contain:
  - Names of members attending
  - Date and time meeting was called to order and adjourned
  - List of topics discussed
  - Description of each motion made and whether seconded
  - Results of every vote taken
  - Vote of each member on every recorded roll call vote (required for all nonprocedural votes)

N.D.C.C. § 44-04-21(2)

Open records

- All records
- Possession of public entity
- Regarding public business
- OPEN

Definition of "RECORD"

- Recorded information of any kind, regardless of the physical form or characteristic by which the information is stored, recorded, or reproduced.

- N.D.C.C. 44-04-17.1(16)

Unless specifically provided by law…

- There has to be a law that specifically says the record is protected.

- The law will say the record is "not subject to Article XI of the ND Constitution," "not an open record," "exempt," or "confidential."

Exempt vs. Confidential

- Exempt records may be released.
- Discretion is with the public entity.
- May be called a "closed" record.
- Not against the law to release an exempt record.

N.D.C.C. §§ 44-04-17.1(2) ("closed record"); (5) ("exempt record")

- Confidential records cannot be released.
- No discretion.
- Can only release pursuant to the statute.
- Class C felony to knowingly release. §12.1-13-01

N.D.C.C. § 44-04-17.1(3) ("confidential record")

Examples

- Exempt
- § 44-04-18.1
- Home address
- Home phone number
- Photograph
- Payroll deduction info
- § 44-04-26 security system plans

- Confidential
- Social security numbers
- Employee medical records
- Computer passwords
- Employee use of EAP records

Generally Open:

- Personnel file
  - Job performance
  - Evaluations
- Business related records
- E-mails that are business related
- Computer records
- Contracts with a public entity – prices, costs

The basic rules:

- Every person has the right to inspect or make a request for a public record.
  - The request DOES NOT have to be in writing.
  - The requester DOES NOT have to give their name or reason for the request.
- You must provide records – not opinions or explanations.
  - Do not have to create new records
- You only have to provide one copy of the record, once.

The basics continued…

- You only have to provide records you have in your possession.
  - Requests should reasonably identify the record - you can ask for clarification, but cannot intimidate.
- Give a legal reason for any denial of records.
- Review and redact for confidential information. (N.D.C.C. § 44-04-18.10)
- Communicate with requester – give estimate of time, costs, etc.
- Provide records within a reasonable time.

“Reasonable Time”

- Provide records within a “reasonable time.”
- Several factors used to determine appropriate length of any delay, including:
  - need to consult with attorney if reasonable doubt exists on whether the record is open
  - excising confidential information
  - bulk of request and volume of documents reviewed
  - accessibility of documents
  - office staff and availability, workload, balancing of other responsibilities

Basics of charging:

- 25 ¢ per copy for 8x11 or 8x14 page.
- Locating records, *even electronic records* – first hour free, thereafter $25/hour.
- Redacting confidential information – first hour free, thereafter $25/hour. *Electronic records*.
- Actual cost of postage, maps, color photos.
- Can ask for money up front.
- Access is free!!!

N.D.C.C. § 44-04-18

Electronic records

- Must provide reasonable access to electronically maintained records.
- Can't impair ability to access records by contracting with a third party.
- No charge for electronic copy unless it takes IT longer than one hour to produce.
- If longer than 1 hour – charge actual cost of IT resources.

TFFR records: N.D.C.C. §15-39.1-30

- All records relating to the retirement benefits of a member or a beneficiary under this chapter (15-39.1) are confidential and are not public records.
- The fact of participation is confidential. See Attorney General's Opinion 97-F-06 and 2002-L-55.

N.D.C.C. §15-39.1-30 cont.

- The information and records may be disclosed, under rules adopted by the board, only to:
- 1. A person to whom the teacher has given written consent to have the information disclosed.
- 2. A person legally representing the teacher, upon proper proof of representation, and unless the teacher specifically withholds consent.
- 3. A person authorized by a court order.

N.D.C.C. §15-39.1-30 cont.

- 4. A member's participating employer, limited to information concerning the member's years of service credit, years of age, employer and employee contribution amounts, and salary. The board may share other types of information as needed by the employer to validate the employer's compliance with existing state or federal law. Any information provided to the member's participating employer under this subsection must remain confidential except as provided in subsection 6.

N.D.C.C. §15-39.1-30 cont.

- 5. The administrative staff of the public employees retirement system for purposes relating to membership and benefits determination.
- 6. State or federal agencies for the purpose of validating member eligibility or employer compliance with existing state or federal law.

N.D.C.C. §15-39.1-30 cont.

- 7. Member interest groups approved by the board, limited to information concerning the member's death.
- 8. A government child support enforcement agency for purposes of establishing paternity or establishing, modifying, or enforcing a child support obligation of the member.

N.D.C.C. §15-39.1-30 cont.

- 9. The member's spouse or former spouse, that individual's legal representative, and the judge presiding over the member's dissolution proceeding for purposes of aiding the parties in drafting a qualified domestic relations order under section 15-39.1-12.2. The information disclosed under this subsection must be limited to information necessary for drafting the order.

N.D.C.C. §15-39.1-30 cont.

- 10. Beneficiaries designated by a participating member or a former participating member to receive benefits after the member's death, but only after the member's death. Information relating to beneficiaries may be disclosed to other beneficiaries of the same member.

N.D.C.C. §15-39.1-30 cont.

- 11. The general public, but only after the board has been unable to locate the member for a period in excess of two years, and limited to the member's name and the fact that the board has been unable to locate the member.
- 12. Any person if the board determines disclosure is necessary for treatment, operational, or payment purposes, including the completion of necessary documents.

N.D.C.C. §15-39.1-30 cont.

- 13. A person if the information relates to an employer service purchase, but the information must be limited to the member's name and employer, the retirement program in which the member participates, the amount of service credit purchased by the employer, and the total amount expended by the employer for that service credit purchase. Information identified under this subsection may only be obtained from the member's employer.

Policy Type: TFFR Ends

Policy Title: Membership Data and Contributions

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

Policy Title: Membership Data and Contributions cont.

- Accordingly, the administrative means will be to:
- 1. Retain member documents applicable to the retirement program.
- 2. Safeguard TFFR database files.
- 3. Protect the confidential information contained in member files.
- 4. Collect the member and employer contributions from the employers based on retirement salary earned by the member.

Policy Title: Membership Data and Contributions cont.

- 5. Monitor the employer reporting process including the timely filing of information, consistency of month-to-month data, and changes in the employer payment of member assessments.
- 6. Review the individual member data, salary, and service credit for accuracy.
- 7. Post and validate the data received from the employer to the individual accounts.
- 8. Mail annual statements to every member.

Policy Title: Membership Data and Contributions cont.

- 9. Summarize the teacher data reported and notify the employers of the year-to-date information.
- 10. Ensure that individuals employed as "teachers" in North Dakota school districts, political subdivisions, and state institutions are reported to TFFR in compliance with the North Dakota Century Code (NDCC).
- 11. Provide publications and reporting instructions to employers on TFFR.
- 12. Transfer member and employer contributions to the investment program in a timely manner.

Policy Type: TFFR Program
Policy Title: Information Dissemination

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

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

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

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

Fiduciary Duty of Loyalty revisited: Stapleton v. PERA, 2013 WL 3943272 (Colo.App.)

- State Treasurer, as member of PERA Board, brought action against co-trustees for breach of fiduciary duty by denying Treasurer unfettered access to PERA records.
- Remaining trustees counterclaimed alleging Treasurer was not entitled to requested records because there was no nexus between request and Treasurer’s fiduciary duties to PERA.
- Held: State Treasurer was not entitled to unfettered access to PERA records.

Violations

- Attorney general's opinions under N.D.C.C. § 44-04-21.1:
  - 30 days of alleged violation except meetings without notice – 90 days.
  - If AG opinion concludes that violation occurred and action needed to correct violation not taken within 7 days & requester prevails in civil action, requester will get attorney's fees.
  - Consequence for failure to comply with AG opinion – potential personal liability & pay for legal counsel.

Violations

- Violations may be subject of civil action under N.D.C.C. § 44-04-21.2.
- Action must be commenced within 60 days of the date the person knew or should have known of the violation or 30 days from issuance of AG opinion.
- Court may award $1,000 or actual damages for intentional or knowing violations.

- AG can refer a public servant to the state's attorney for multiple violations.
- A public servant who knowingly violates the law is guilty of a class A misdemeanor.

N.D.C.C. § 44-04-21.3
N.D.C.C. § 12.1-11-06

More information

- www.ag.nd.gov
  - Manuals
  - Opinions
  - Fact Sheets

LETTER OPINION
2013-L-06

December 12, 2013

Mr. Richard J. Riha
Burleigh County State's Attorney
514 E Thayer Ave
Bismarck, ND 58501-4413

Dear Mr. Riha:

Thank you for your letter raising several questions relating to the effects a same-sex marriage, legally valid and entered in another state, has on an individual seeking a marriage license in North Dakota, where such a union is not recognized. You first ask whether a county recorder may issue a marriage license to an individual who had previously entered into a same-sex marriage which was valid in another state, did not obtain a divorce, and is now seeking to enter into a marriage legally recognized in North Dakota. You further ask whether such an individual would be committing a criminal violation by signing a marriage application, under oath, stating that he or she is "Single/Never Married." Finally, you ask whether the individual risks violating another state's bigamy statute if that individual obtains a marriage license in North Dakota, and moves back to a state in which the previous, same-sex marriage is valid and recognized.

For the reasons discussed below, it is my opinion because explicitly prohibited by state constitution and statutes, an individual's previously valid same-sex marriage in another state is not legally recognized in North Dakota and he or she may be issued a valid marriage license here. Further, it is my opinion that since the North Dakota Constitution prohibits the recognition of such a union, the individual would not be committing a criminal violation in this state by indicating he or she was "Single/Never Married" on a signed marriage application. Finally, I decline to opine on the interpretation of another state's law and defer to state legislatures to resolve this unique issue.

ANALYSIS

I.

I first address your question of whether a county recorder may issue a North Dakota marriage license to an individual who previously entered into a same-sex marriage, valid in another state, when that marriage is not recognized in this state, and our license application requires legal dissolution of a prior marriage.[1]

In order to answer this question, I first turn to North Dakota's Constitution explicitly defining "marriage" to be between one man and one woman:

> Marriage consists only of the legal union between a man and a woman. No other domestic union, however denominated, may be recognized as a marriage or given the same or substantially equivalent legal effect.[2]

State statute contains similar restrictions:

> Marriage is a personal relation arising out of a civil contract between one man and one woman to which the consent of the parties is essential. The marriage relation may be entered into, maintained, annulled, or dissolved only as provided by law. A spouse refers only to a person of the opposite sex who is a husband or a wife.[3]

North Dakota also prohibits recognition of a same-sex marriage that is valid in the jurisdiction in which it was contracted. North Dakota's recognition of foreign marriages is governed by N.D.C.C. § 14-03-08, which states:

> Except when residents of this state contract a marriage in another state which is prohibited under the laws of this state, all marriages contracted outside this state, which are valid according to the laws of the state or country where contracted, are valid in this state. This section applies only to a marriage contracted in another state or country which is between one man and one woman as husband and wife.[4]

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[1] N.D.C.C. § 14-03-06 "A marriage contracted by a person having a former husband or wife living, if the former marriage has not been annulled or dissolved, is illegal and void from the beginning unless such former husband or wife was absent and believed by such person to be dead for a period of five years immediately preceding such marriage."
[2] N.D. Const. art. XI, § 28 (emphasis added).
[3] N.D.C.C. § 14-03-01 (emphasis added).
[4] N.D.C.C. § 14-03-08 (emphasis added).

In interpreting this statute prior to the 1997 amendment, the Supreme Court of North Dakota held that marriages validly entered in other territories would be recognized in North Dakota unless expressly prohibited by law.[5] North Dakota Constitution art. XI, § 28 and N.D.C.C. § 14-03-01, expressly prohibit a marriage between persons of the same-sex, and therefore North Dakota does not recognize a same-sex marriage, as codified in N.D.C.C. § 14-03-08.

The extent to which North Dakota must recognize the laws of another state is governed by the Full Faith and Credit Clause ("Clause") of the United States Constitution. The Clause provides: "Full Faith and Credit shall be given in each State to the public Acts, Records, and judicial Proceedings of every other State. And the Congress may by general Laws prescribe the Manner in which such Acts, Records and Proceedings shall be proved and the Effect thereof."[6] The United States Supreme Court, however, in applying the Full Faith and Credit Clause, made clear it "does not require a State to apply another State's law in violation of its own legitimate public policy." Nevada v. Hall, 440 U.S. 410, 422 (1979) (citing Pacific Ins. Co. v. Indus. Accident Comm'n, 306 U.S. 493 (1939)). The Court recognized marriage "has always been subject to the control of the legislature." Maynard v. Hill, 125 U.S. 190, 205 (1888). Thus, the Clause does not require one state to recognize and abide by the legislative judgments of another state concerning the recognition and validity of marriage if doing so would be contrary to its own "public policy."

North Dakota's public policy to limit "marriage" to one man and one woman and prohibit recognition of same-sex marriages is articulated in, and supported by, the legislative history of N.D.C.C. §§ 14-03-01 and 14-03-08 and N.D. Const. art. XI, § 28.

In 1997, the Fifty-fifth Legislative Assembly amended state marriage statutes defining the relationship as being between one man and one woman.[7] Amendments were passed defining spouse as being a person of the opposite sex who is a husband or wife.[8] Further

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[5] See Johnson v. Johnson, 104 N.W.2d 8 (N.D. 1960) (North Dakota Supreme Court recognized a marriage valid and legally entered in another state, when such a marriage was not prohibited by the laws of North Dakota). See also, Pearson v. Person, 606 N.W.2d 128, 131 (N.D. 2000) (although common law marriage cannot be entered into in North Dakota, such a marriage validly entered into in Canada may be entitled to recognition in North Dakota under N.D.C.C. § 14-03-08, because North Dakota law does not expressly prohibit such a marriage). Since same-sex marriages are expressly prohibited and not recognized in North Dakota, a same-sex marriage validly entered into in another state is not afforded recognition under N.D.C.C. § 14-03-08.
[6] U.S. Const. art. IV, § 1; see also 28 U.S.C. § 1738.
[7] 1997 N.D. Sess. Laws ch. 145, § 1.
[8] Id.

amendment of state statute regulating what foreign marriages this state will recognize was made:

> 14-03-08. Foreign marriages recognized – Exception. ~~All~~ Except when residents of this state contract a marriage in another state which is prohibited under the laws of this state, all marriages contracted outside ~~of~~ this state, which are valid according to the laws of the state or country where contracted, are valid in this state. ~~This section does not apply when residents of this state contract a marriage in another state which is prohibited under the laws of North Dakota.~~ This section applies only to a marriage contracted in another state or country which is between one man and one woman as husband and wife.[9]

The legislature even went so far as to add the following effective date to the amendments:

> If the legislature of another state enacts a law under which a marriage between two individuals, other than between one man and one woman, is a valid marriage in that state or the highest court of another state holds that under the law of that state a marriage between two individuals, other than between one man and one woman, is a valid marriage, the governor of this state shall certify that fact to the legislative council. The certification must include the effective date of the other state's legislation or the date of the court decision. Sections 1 and 2 of this Act are effective as of the earlier of the effective date of that law or the date of that decision.[10]

In a letter to the Senate Judiciary Committee, a Senate bill sponsor wrote:

> This bill is needed in our State to combat recognition of marriages other than between a man and woman now happening in other states - - the most obvious, Hawaii.[11]

A state Representative also testified before the committee:

> This bill is a definition-of-marriage bill, not a gay-bashing bill. It would define marriage and spouse in Century Code for use in interpreting and applying laws. It would also allow the state to recognize marriages only between one man and one woman as husband and wife.

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[9] Id. § 2.
[10] Id. § 3.
[11] Hearing on S.B. 2230 Before the S. Comm. on the Judiciary, 1997 N.D. Leg. (Feb. 5) (Statement of Sen. Watne).

> This would specify the type of union that the state would recognize as a marriage and would eliminate platonic relationships being recognized as such. Seventeen states have passed similar legislation.[12]

An additional Senate bill sponsor gave the following testimony before the House Judiciary Committee:

> As sponsor, I want to emphasize that the goal of this legislation is to treat people who may move here the same way we treat our own citizens --- the same way we have always treated our own citizens.
>
> Our law, going way back to our early statehood, says we will not recognize marriages in North Dakota that are not between one man and one woman. Furthermore, if a resident leaves the state to enter into some other type of marriage, we will not recognize it. Since they made that clear, I am confident that it was the will of our founders that other types of marriages not be recognized if the partners are just moving here.
>
> I do not consider our founders, who originated this section of law, to be homophobes or bigots. They had never even heard of aids [sic]. They wrote this section of law because they recognize the importance and sanctity of the institution of marriage and they recognized that the institution of marriage is a cornerstone of the type of orderly society that has been in North Dakota for over 100 years.[13]

It is clear the legislators' intent at the time of these amendments was to limit the state's recognition of foreign marriages to those between one man and one woman. The statutory language has remained unchanged. Further, the people of North Dakota voted in the general election of 2004 to add article XI, § 28 to the Constitution, which states, "[m]arriage consists only of the legal union between a man and a woman. No other domestic union, however denominated, may be recognized as a marriage or given the same or substantially equivalent legal effect." The amendment placed into our state constitution language makes it clear no other type of union can be recognized or given any legal effect.[14]

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[12] Hearing on S.B. 2230 Before the S. Comm. on the Judiciary, 1997 N.D. Leg. (Feb. 5) (Statement of Rep. Sandvig).
[13] Hearing on S.B. 2230 Before the H. Comm. on the Judiciary, 1997 N.D. Leg. (Mar. 11) (Statement of Sen. Christmann).
[14] N.D. Const. art. XI, § 28.

Other federal law is relevant in my analysis. Congress, in enacting the federal Defense of Marriage Act[15] (DOMA) legislatively addressed the issue of inter-state recognition of same-sex marriages. DOMA Section 2 provides:

> No State, territory, or possession of the United States, or Indian tribe, shall be required to give effect to any public act, record, or judicial proceeding of any other State, territory, possession or tribe respecting a relationship between persons of the same sex that is treated as a marriage under the laws of such other State, territory, possession, or tribe, or a right or claim arising from such relationship.[16]

As DOMA articulates, there is no mandate under federal law for one state to recognize the same-sex marriage formed in another state.

With no federal mandate requiring North Dakota to recognize a same-sex marriage performed in another state, and a clear public policy of "marriage" being as between one man and one woman embedded into our state constitution, it is my opinion that, under the law, the State of North Dakota does not recognize a same-sex marriage legally performed in another state, and that non-recognition is not in violation of the Full Faith and Credit Clause.

Accordingly, under these facts, it is my opinion that, even if not legally dissolved, the individual's previous marriage cannot be recognized in the State of North Dakota and a county recorder may issue a valid marriage license in accordance with N.D.C.C. ch. 14-03.

II.

Next, you question whether the individual in these facts would, when filling out a North Dakota marriage license application, states that he/she is "Single/Never Married" and signs that application under oath, be committing a criminal violation.

The answer to your first question is determinative of the answer to your second question. As previously discussed, state law explicitly does not recognize any marriage other than one between one man and one woman, nor does it recognize any rights associated with the union. While the marriage may be valid elsewhere, the North Dakota Constitution and

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[15] Pub. L. 104-199, 110 Stat. 2419 (Sept. 21, 1996).
[16] 28 U.S.C.A. § 1738C. I note that in United States v. Windsor, 133 S.Ct. 2675 (2013), the United States Supreme Court struck down Section 3 of DOMA which defined for federal purposes "marriage" as a legal union between one man and one woman and "spouse" as a person of the opposite sex who is a husband or a wife. Section 2 was not challenged and was not addressed by the Court.

statutes prohibit its legal recognition. As such, it is my opinion the individual would not be committing a criminal violation in this state by indicating he or she was "Single/Never Married" on a signed marriage application.

III.

Finally, you pose a scenario where the newly-married opposite-sex couple returns to a state that recognizes same-sex marriage and question whether the individual then risks violating that state's bigamy statute. As Attorney General of North Dakota, it would be inappropriate in a legal opinion to interpret the laws of other states.

Sincerely,

Wayne Stenehjem
Attorney General

nrm/slv/vkk

This opinion is issued pursuant to N.D.C.C. § 54-12-01. It governs the actions of public officials until such time as the question presented is decided by the courts.[17]

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[17] See State ex rel. Johnson v. Baker, 21 N.W.2d 355 (N.D. 1946).

MEMORANDUM

TO: TFFR Board

FROM: Fay Kopp

DATE: January 16, 2014

SUBJ: Annual Pension Plan Comparisons
2012 Public Fund Survey

Enclosed is the Public Fund Survey (PFS) for FY 2012 (published December 2013) conducted by NASRA and NCTR. This survey provides information on key characteristics of most of the nation's largest public retirement systems.

Keep in mind the survey does not include recent legislative changes made to benefit and contributions as many of the changes are being phased in over a number of years. It also does not include 2013 investment performance which will begin being reflected in next year's survey.

As I do each year, I will make a brief presentation at the meeting comparing NDTFFR to the 2012 survey.

Enclosure

Summary of Findings for FY 2012 December 2013

About the Public Fund Survey

The Public Fund Survey is an online compendium of key characteristics of most of the nation's largest public retirement systems. The Survey is sponsored by the National Association of State Retirement Administrators and the National Council on Teacher Retirement. Keith Brainard maintains the Survey.

Beginning with fiscal year 2001, the Survey contains data on public retirement systems that provide pension and other benefits for 12.9 million active (working) members and 7.8 million annuitants (those receiving a regular benefit, including retirees, disabilitants and beneficiaries). At the end of FY 12, systems in the Survey held assets of $2.63 trillion. The membership and assets of systems included in the Survey comprise approximately 85 percent of the entire state and local government retirement system community.

The primary source of Survey data is public retirement system annual financial reports. Data also is culled from actuarial valuations, benefits guides, system websites, and input from system representatives. The Survey is updated continuously as new information, particularly annual financial reports, becomes available. This report focuses on fiscal year 2012. Using graphs, this summary describes changes and trends in selected elements of the survey.

Summary of Findings

Figure A plots the aggregate actuarial funding level among plans in the Survey since its inception in FY 2001. The funding level in FY 12 declined to 73.5 percent, down from 75.8 percent the prior year. The aggregate actuarial value of assets increased to $2.67 trillion, an increase of 0.9 percent. This increase was outpaced by growth in the actuarial value of liabilities, from $3.49 trillion to $3.63 trillion, or 4.1 percent. Liabilities grow primarily as active (working) plan participants accrue retirement benefit service credits.

Most plans have completed, or are nearing completion, of recognition of the sharp investment losses incurred in 2008-09. Those losses are being offset by asset gains since the market decline.

Figure A

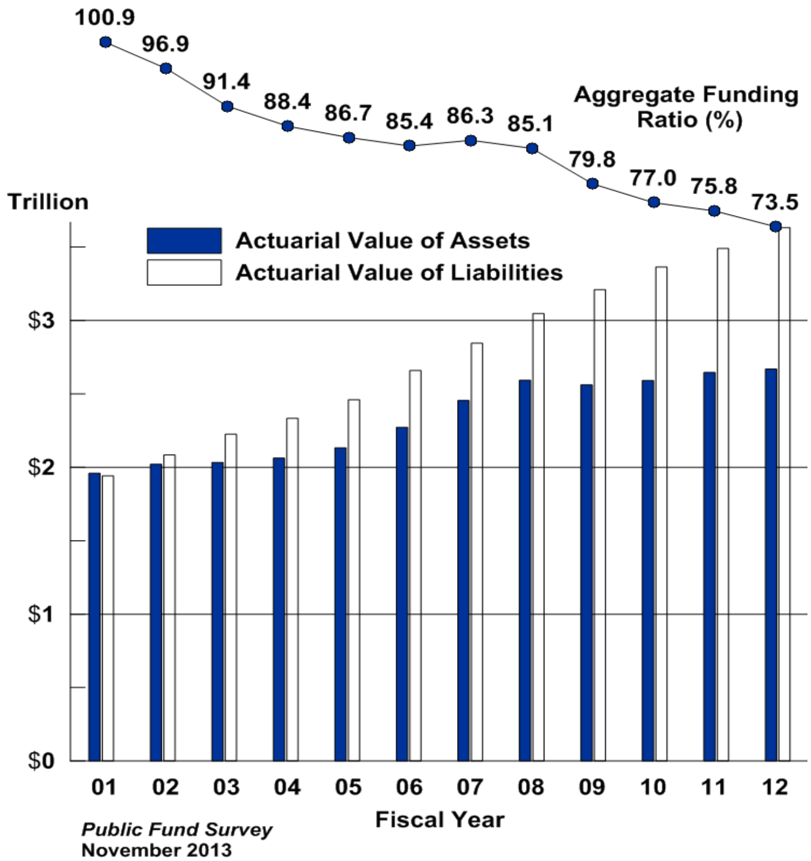
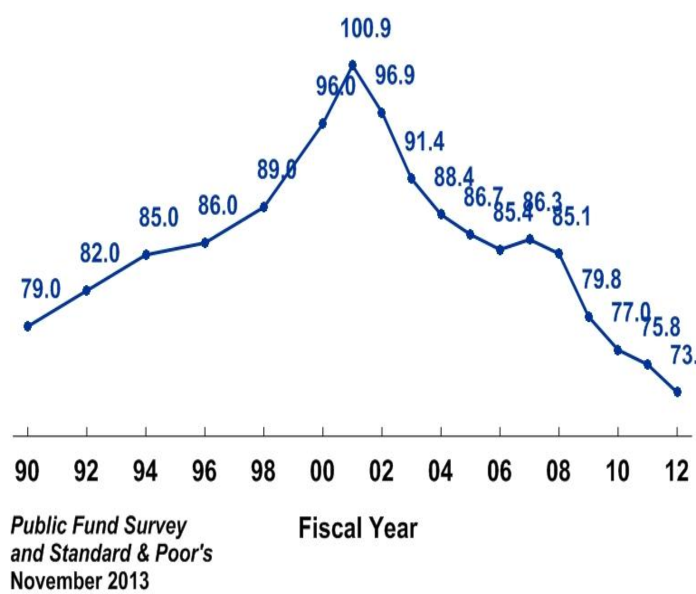


Figure B presents the aggregate actuarial funding level since 1990, measured by Standard & Poor's from 1990 to 2000 and the Survey since 2001. This figure illustrates the substantial effect investment returns have on a pension plan's funding level: investment market performance was relatively strong during the 1990s, followed by two periods, from 2000-2002 and 2008-09, of sharp market declines. Other factors also affect a plan's funding level, including contributions made relative to those that are required; changes in benefits; and rates of employee salary growth.

Figure B



The individual funding levels of the 126 plans in the Survey are depicted in Figure C. The size of each circle in the chart is roughly proportionate to the size of each plan's actuarial liabilities—larger bubbles reflect larger plans and smaller bubbles reflect smaller plans. The median funding level is 73.1 percent.

Figure C

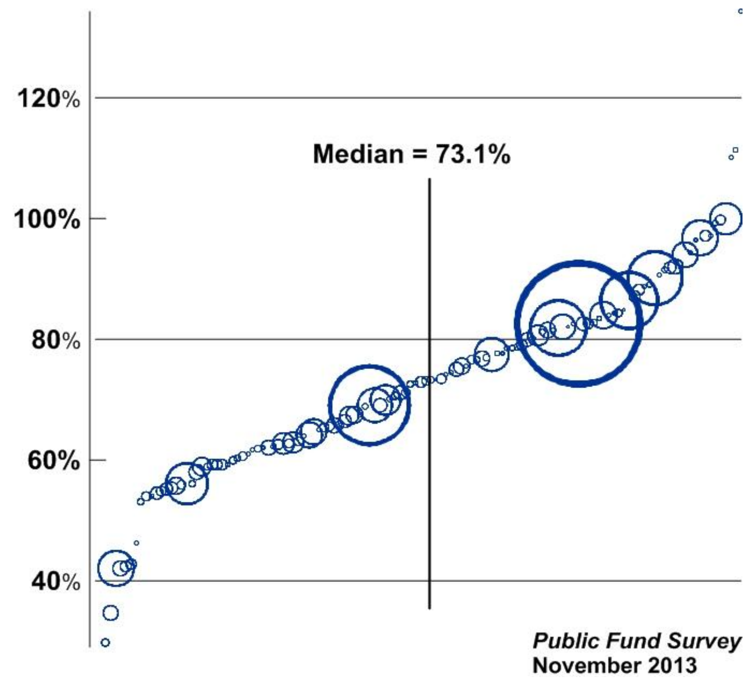
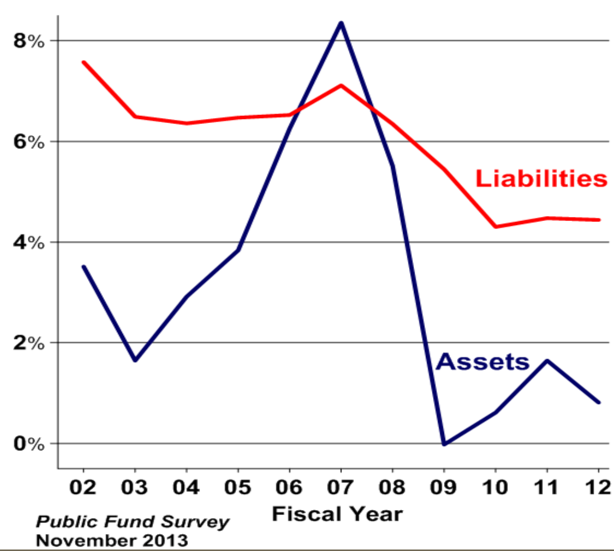


Figure D plots the median annual change among plans in the Survey in the actuarial value of assets and liabilities since FY 01. As the chart shows, liability growth has declined noticeably since the onset of the recession in 2007, likely due to several factors, including low salary growth in recent years. Declines in the rate of liability growth can be offset by the effects of changes in actuarial assumptions. The many plans that have reduced their investment return assumption in recent years is sustaining what otherwise would be an even lower median rate of liability growth.

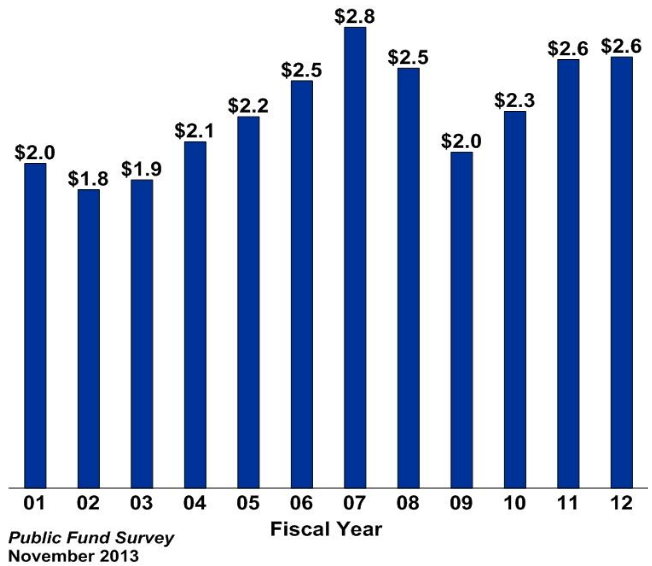
Tepid asset growth reflects the phased recognition (also known as actuarial smoothing of assets) of the sharp market declines experienced in 2008 and 2009, exacerbated by low returns in FY 12 for most funds in the survey (see Figure M).

Figure D



On a market value basis, as of FY 12, systems in the Public Fund Survey held some $2.6 trillion in assets. Figure E, which plots the fiscal year-end value of public pension funds in the Survey, reflects the result on these funds of market volatility in recent years.

Figure E



The Survey measures two types of retirement system members: Actives and Annuitants. Actives are those who are currently working and earning retirement service credits. Annuitants are those who receive a regular benefit from a public retirement system. These are predominantly retired members, but also include those who receive a disability benefit, and survivors of retired members or disabilitants.

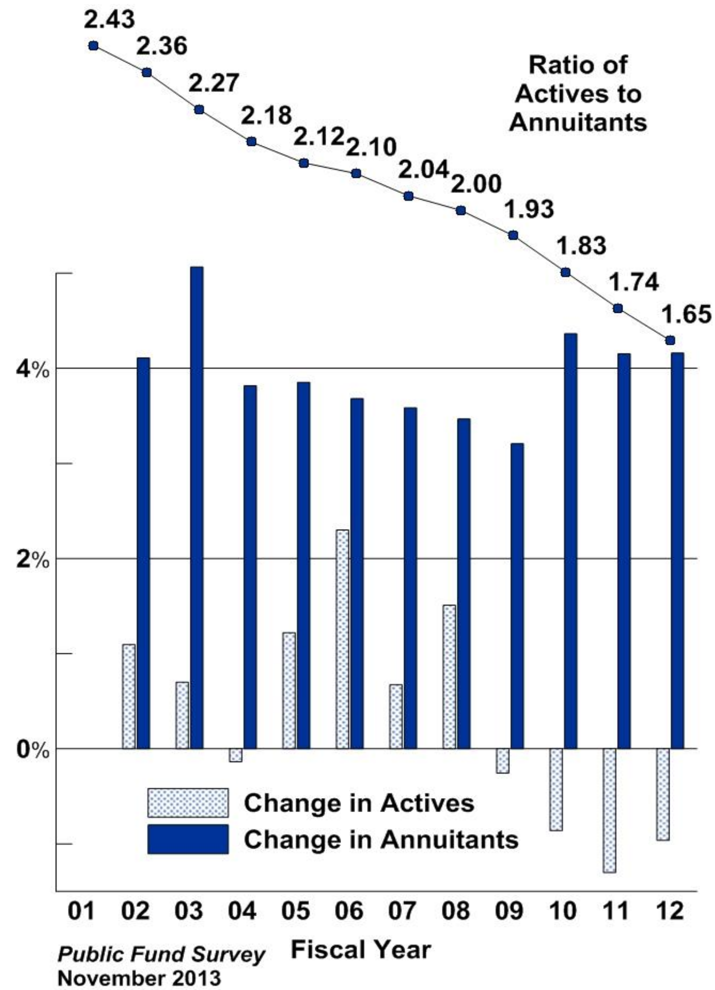
As shown in Figure F, for the second consecutive year, the number of annuitants among systems in the Survey rose by 4.2 percent. Meanwhile, for the fourth consecutive year, the number of active members declined. This decline is consistent with US Census Bureau reports showing a reduction in the number of persons employed by state and local government, a trend Census data shows began in August 2008.

The difference between the continued increase in annuitants and a declining number of active members is driving a sustained reduction in the overall ratio of actives to annuitants. In FY 12, this ratio dropped to 1.65.

A low or declining ratio of actives to annuitants is not, per se, problematic for a public pension plan. This is because the typical public pension funding model features accumulation, during plan participants' working years, of assets needed to fund retirement benefits.

When combined with an unfunded liability, however, a low or declining ratio of actives to annuitants can cause fiscal distress for pension plan sponsors. An unfunded liability represents a shortfall in accumulated assets, and increases the required cost of the plan. A lower ratio of actives to annuitants results in costs to amortize a plan's unfunded liability over a smaller payroll base, which increases the cost of the plan as a percentage of employee payroll. Thus, although a declining active-annuitant ratio does not, by itself, indicate a problem with the pension plan, when combined with a poorly-funded plan, a low or declining ratio of actives to annuitants can result in relatively high required pension costs.

Figure F

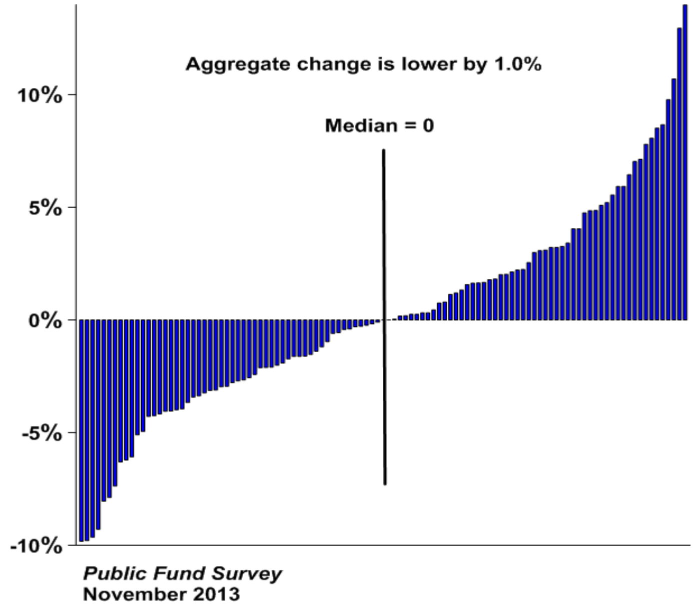


Recent data provided by the U.S. Bureau of Labor Statistics suggest that the decline in state and local government employment may be ending, as the sectors' combined employment in October 2013 was at its highest point in more than two years.

Figure G plots the distribution of changes in payroll over a two-year period, from FY 10 to FY 12, among 110 plans in the survey for which this data is available. (The chart excludes plans in the Survey that are closed to new hires: the Alaska PERS and TRS, Michigan SERS, and three plans in Washington state.)

As the chart shows, the median change in payroll over this two-year period was zero, although plans' experience covered a wide range (from a decline of 9.8 percent to an increase of 14.0 percent). Eighty-five percent of the plans had payroll growth over the two-year period of less than five percent, and the aggregate change was lower by 1.0 percent. The low rate of change in payroll reflects two basic factors: stagnant or declining employment levels and modest salary growth. Information provided by the U.S. Bureau of Labor Statistics indicates that annual growth in wages and salaries for employees of state and local government has remained below 2.0 percent since mid-2009 and below 1.5 percent since early 2010.

Figure G

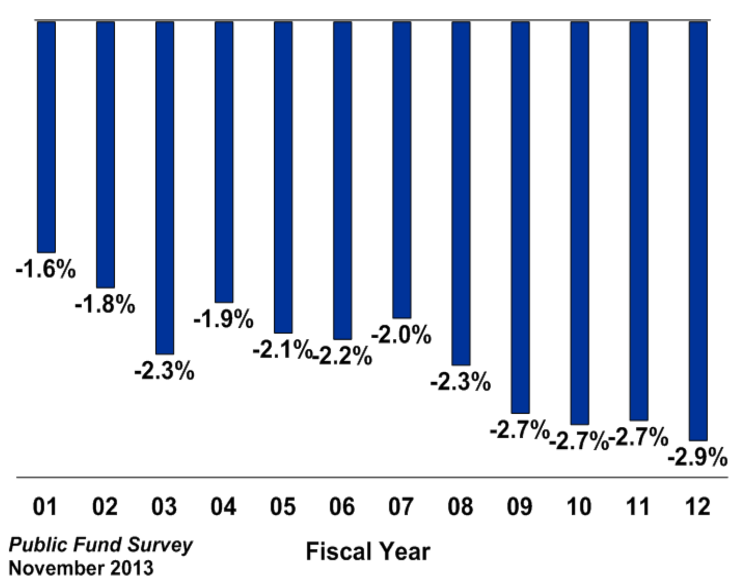


A growing number of annuitants, combined with a low or negative rate of increase among active members will result in a reduction in a retirement system's external cash flow. External cash flow is defined as the difference between a system's revenue from contributions, and payouts for benefits and administrative expenses.

Figure H plots the median external cash flow as a percentage of assets, since FY 01. By itself, a negative cash flow is not an indication of fiscal or actuarial distress. Nearly all systems in the survey have an external cash flow that is negative, meaning they pay out each year more than they collect in contributions. One effect of a lower (more negative) cash flow is to require the system's assets to be managed more conservatively, with a larger allocation to more liquid assets in order to meet current benefit payroll requirements.

This year's increase in negative cash flow as a percentage of assets results from the combination of stagnant asset values and growth in benefits payments that exceeds growth in contributions. This slow growth in contributions is partly a result of declining public employment levels (discussed above), and slow to stagnant rates of salary growth.

Figure H



Figures I and J reflect changes in median employee and employer contribution rates. Figure I includes active members who also participate in Social Security; Figure J includes those who do not participate in Social Security. These contribution rates apply to general employees and public school teachers; the rates do not reflect those for public safety workers and other groups of workers (judges, elected officials, etc.).

Roughly 30 percent of employees of state and local government do not participate in Social Security, including approximately 40 percent of all public school teachers, and most to substantially all state and local government workers in Alaska, Colorado, Louisiana, Maine, Massachusetts, Nevada, and Ohio.

Nearly every state has made changes to its pension plan in recent years; the most common change has been an increase in required employee contribution rates. This trend is reflected in Figure I, which shows the median employee rate changing, for the first time since the inception of this survey, from 5.0 percent to 5.7 percent. Contribution rates among employers in both groups continued recent upward trends.

Figure I

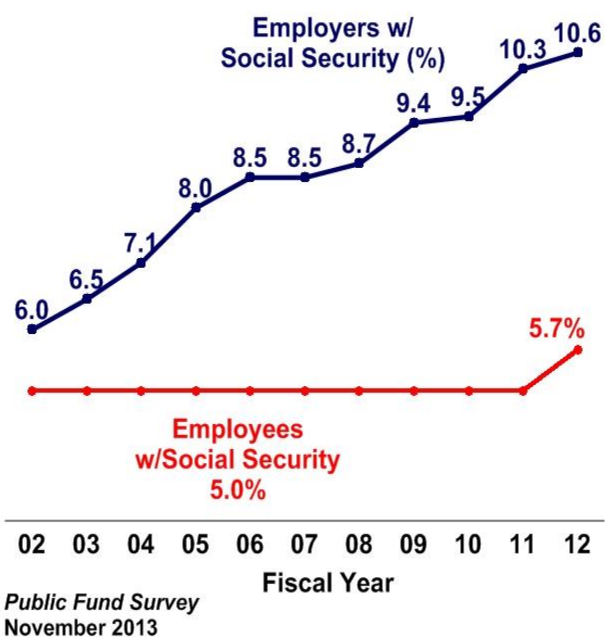


Figure J

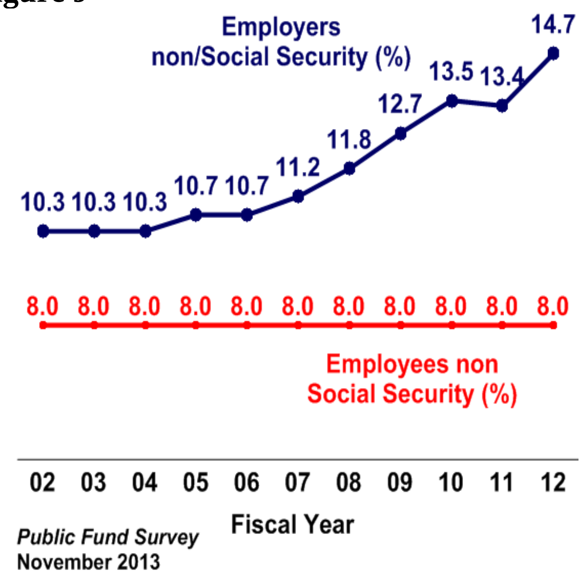


Figure K illustrates the changes over time in two measures pertaining to the Annual Required Contribution (ARC): the average ARC received by all plans in the Survey; and the percentage of plans that received at least 90 percent of their ARC (an arbitrary benchmark denoting a “good faith” effort). The investment market losses experienced by public pension funds in 2008-09 increased public pensions’ unfunded liabilities, which, in turn, increases the cost of the plan. Meanwhile, the Great Recession decimated state and (and especially) local government revenues, an experience from which most plan sponsors still are recovering.

Implementing higher contributions, from employees and employers, takes time, as the effect of changes, such as investment losses, must first be measured through an actuarial valuation; then a legislature or other governing body must approve new contribution rates. This cycle, from actuarial event to implementation of higher contribution rates, can take several years.

Figure K suggests that efforts to fund public pensions, in general, are stabilizing after a period of declining ARC effort during and after the Great Recession. This "declining" effort occurred despite increasing contributions from both employees and employers (see Figure L), as required pension costs grew faster than the contributions that were made.

Figure K

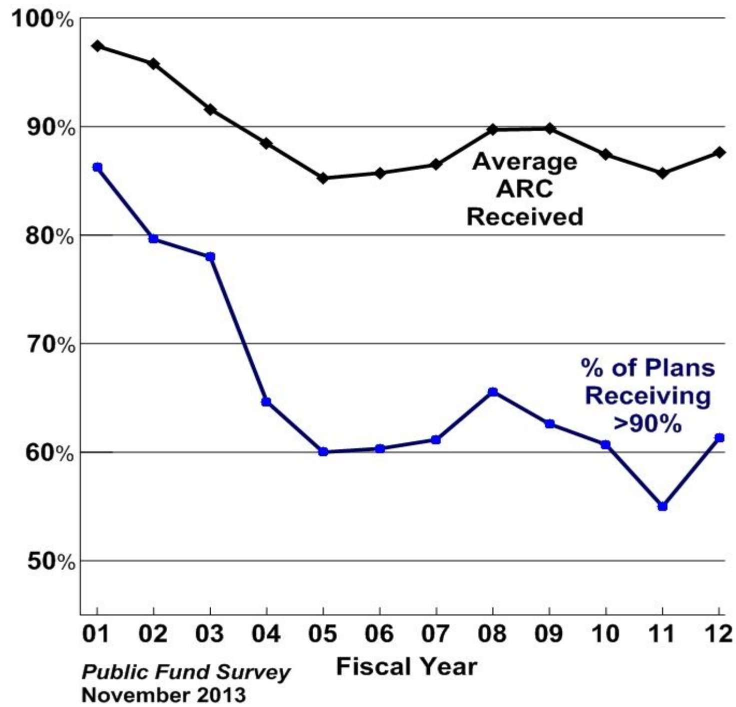
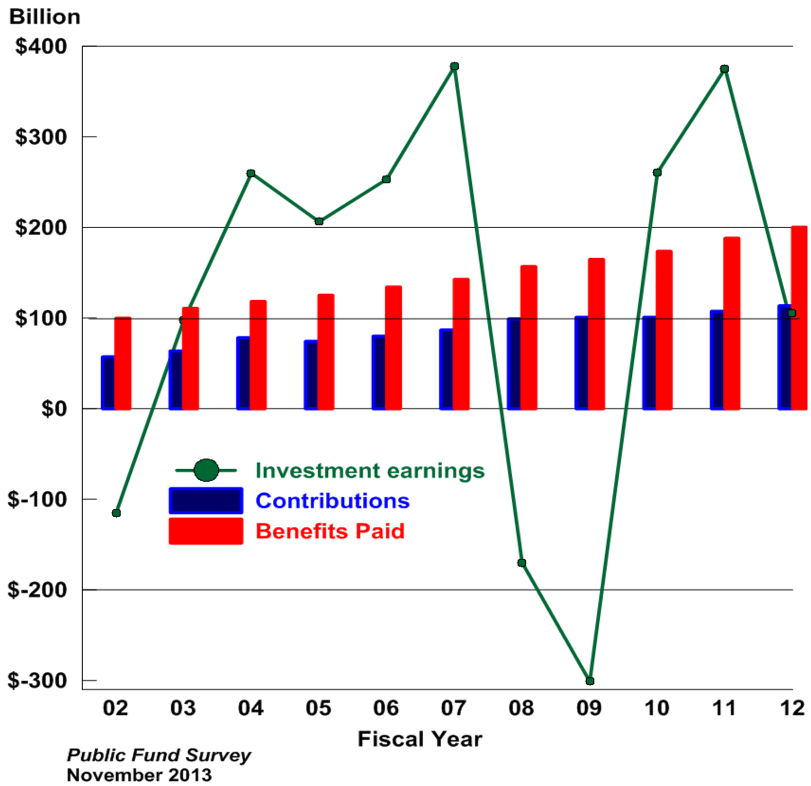


Figure L plots the combined revenue and expenditures of the systems in the Public Fund Survey. The green line reflects investment gains and losses, which tend to vacillate from one year to the next. Blue bars indicate contributions, from employees and employers, and red bars depict benefit payments. Contributions and investment earnings accrue to pension trust funds, established for the sole purpose of paying benefits and funding administrative costs. The benefits paid by public retirement systems are paid from pension trust funds, not from state and local government operating budgets or general funds.

Figure L

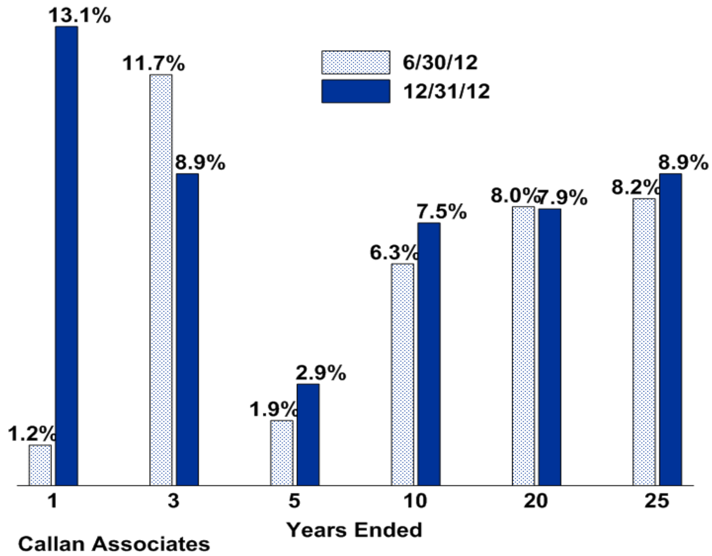


Of all actuarial assumptions, a public pension plan's investment return assumption has the greatest effect on the long-term cost of the plan. This is because a majority of revenues of a typical public pension fund come from investment earnings. Even a minor change in a plan's investment return assumption can impose a disproportionate impact on a plan's funding level and cost.

As shown in Figure M, the median investment return for plans with a FY-end date of June 30, 2012 (which is approximately three-fourths of the funds in the survey), barely exceeded one percent. By contrast, the median one-year return for funds with a FY-end date of December 31, 2012, was a robust 13.1 percent.

Returns for five-year periods ended in FY 12 remain depressed, as they continue to reflect the result of the sharp decline in 2008-09. For longer periods, particularly 10 years and higher, median public pension fund returns are closer to the investment return assumptions used by most plans.

Figure M



For most of the Public Fund Survey's measurement period, the most common investment return assumption used by public pension plans was 8.0 percent, with some plans using rates above and below that benchmark. Since 2009, an unprecedented number of plans have reduced their investment return assumption. Figure N compares the distribution of investment return assumptions since the inception of the Survey.

Some features of Figure N are notable: a) the reduction of the median assumption below 8.0 percent; b) the abandonment of rates above 8.5 percent; and c) adoption for the first time for plans in the Survey of a rate, for plans in Indiana and the District of Columbia, below 7.0 percent.

Figure N

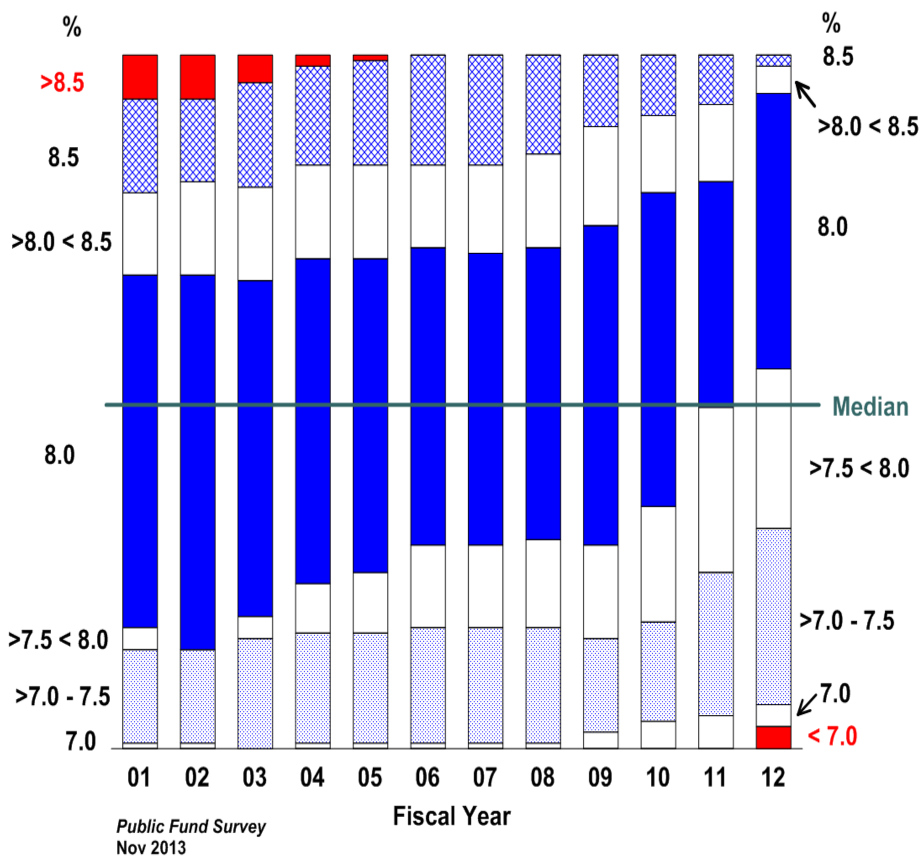
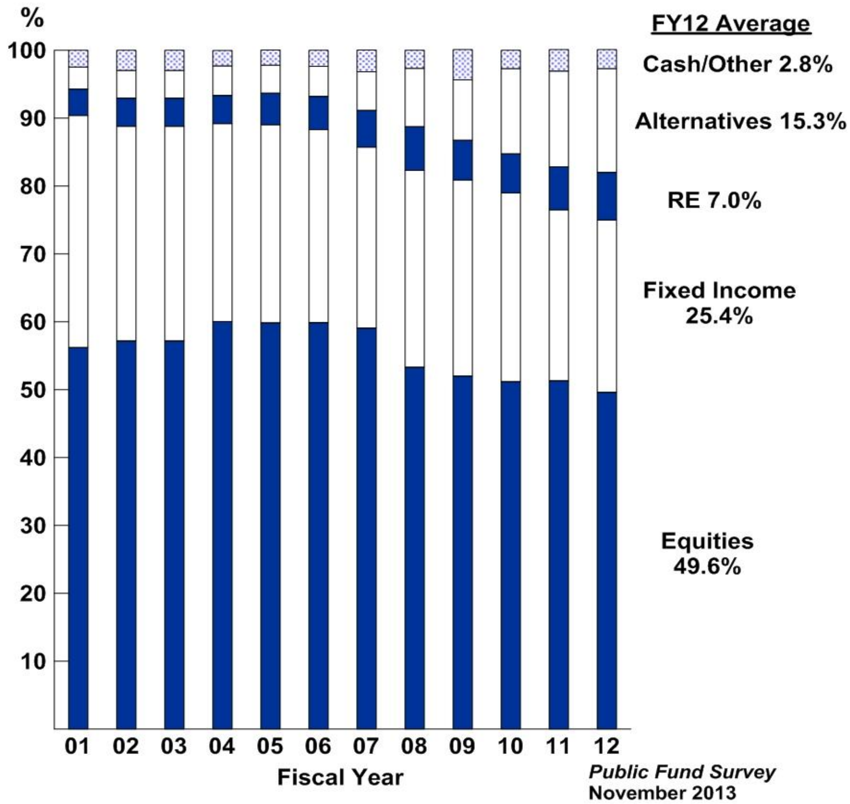


Figure O plots the average asset allocation of 96 funds in the Public Fund Survey since its inception. Key secular trends continued in FY 12, including a) a slow but steady decline in the average allocation to Public Equities; and b) a consistent increase in allocations to Real Estate and Alternatives (composed primarily of private equity and hedge funds). Reversing a long-term trend, after reaching its lowest-ever point in FY 11, the allocation to Fixed Income rose in FY 12 for the first time, to 25.4 percent.

Figure O



Appendix A and B are accessible via the Report Selection page to registered users of the Public Survey. Access these appendices by logging in via the User Login page.

- Appendix A presents a listing of systems in the survey, including their market value of assets and membership counts.
- Appendix B presents a listing of plans in the survey, including their actuarial value of assets and liabilities and funding levels.

Public Pension Plan Comparisons

ND Teachers' Fund for Retirement Board

January 2014

2012 Public Fund Survey

- Published December 2013 for FY 2012
  - **Survey results do not include FY 2013 data.**
- Includes key characteristics of 126 large public retirement plans.
- Represents about 85% of entire state and local government (SLG) retirement system community.
- Sponsored by NCTR and NASRA since 2001.
- Accessible online at www.publicfundsurvey.org

Public Pension Plans Overview

- Retirement benefits play an important role in attracting and retaining qualified employees needed to perform essential public services, promote orderly turnover of workers, and enhance the retirement security of a large segment of the nation's workforce.

- Pension plans provide stable and adequate income replacement in retirement for long-term workers, and ancillary benefits related to disability and death before retirement.

- SLG systems generally are funded in advance by investing employee and employer contributions during employees' working years; benefits are distributed in the form of a lifetime payout in retirement.

2008-09 Market Decline

- 2008-09 market decline, combined with other factors, increased plan's unfunded liabilities – and the cost of amortizing them - for most public pension plans.
- Extent of cost increases depend on plan's:
  - Funding condition prior to the market decline
  - Adequacy of employer and employee contributions
  - Demographic composition
  - Actuarial methods and assumptions
  - Past and future investment returns
- Most plans use a 5 year smoothing period to phase in investment gains and losses. This phase-in period will extend through 2013, so most plans have completed, or are nearing completion, of recognition of the sharp investment losses incurred in 2008-09. Those losses are being offset by asset gains since the market decline.

Response to 2008-09 Market Decline

- Higher costs resulting from market decline have been calculated.
- Higher contributions are becoming due at a time when revenue for most states is stagnant or low, complicating plan's ability to fully fund pension costs.
- In past 4 years, an unprecedented number of public plan sponsors are responding to higher pension costs by:
  - Raising contributions from employees
  - Raising contributions from employers
  - Reducing benefits (primarily for new hires) – higher retirement ages, lower retirement multipliers, increased vesting requirements, etc.
  - Capping benefits; addressing salary spiking, etc.
  - Offering DC or hybrid plan designs for new employees.
  - Postponing or reducing future retiree COLAs

Legal Authority to Make Changes

- Authority to revise benefit and financing arrangements varies widely among states, depending on a combination of constitutional and statutory provisions and case law.
  - New hires only
  - Future benefit accrual patterns for existing plan participants
  - Future retiree COLAs
  - Other
- Outcome of lawsuits in various states.

Actuarial Funding Levels

- Funding ratio is most recognized measure of plan's financial health.
- Determined by dividing actuarial value of assets by liabilities.
- Both fully funded and underfunded plans rely on future contributions and investment returns.
- Plan's funded status is a snapshot in a long-term, continuous financial and actuarial process.
- Most public pension benefits are prefunded.
  - Significant portion of assets needed to fund liabilities is accumulated during working life of participant.
- Pay-as-you-go is opposite of prefunded
  - Current pension obligations are paid with current revenues.
  - Much more expensive

Actuarial Funding Levels

- Public pension plans are designed to moderate year-to-year changes in funding levels and required costs in the face of events such as investment market volatility. This is accomplished with:
  - Portfolio diversification.
  - Long investment and funding horizons.
  - Actuarial smoothing methods, which phase in investment gains and losses over several years.
  - Amortization periods, which enable plans to set and pursue long-term funding and investment policies.
  - Use of a discount rate that is consistent with historic and projected long-term investment returns.

Actuarial Funding Levels

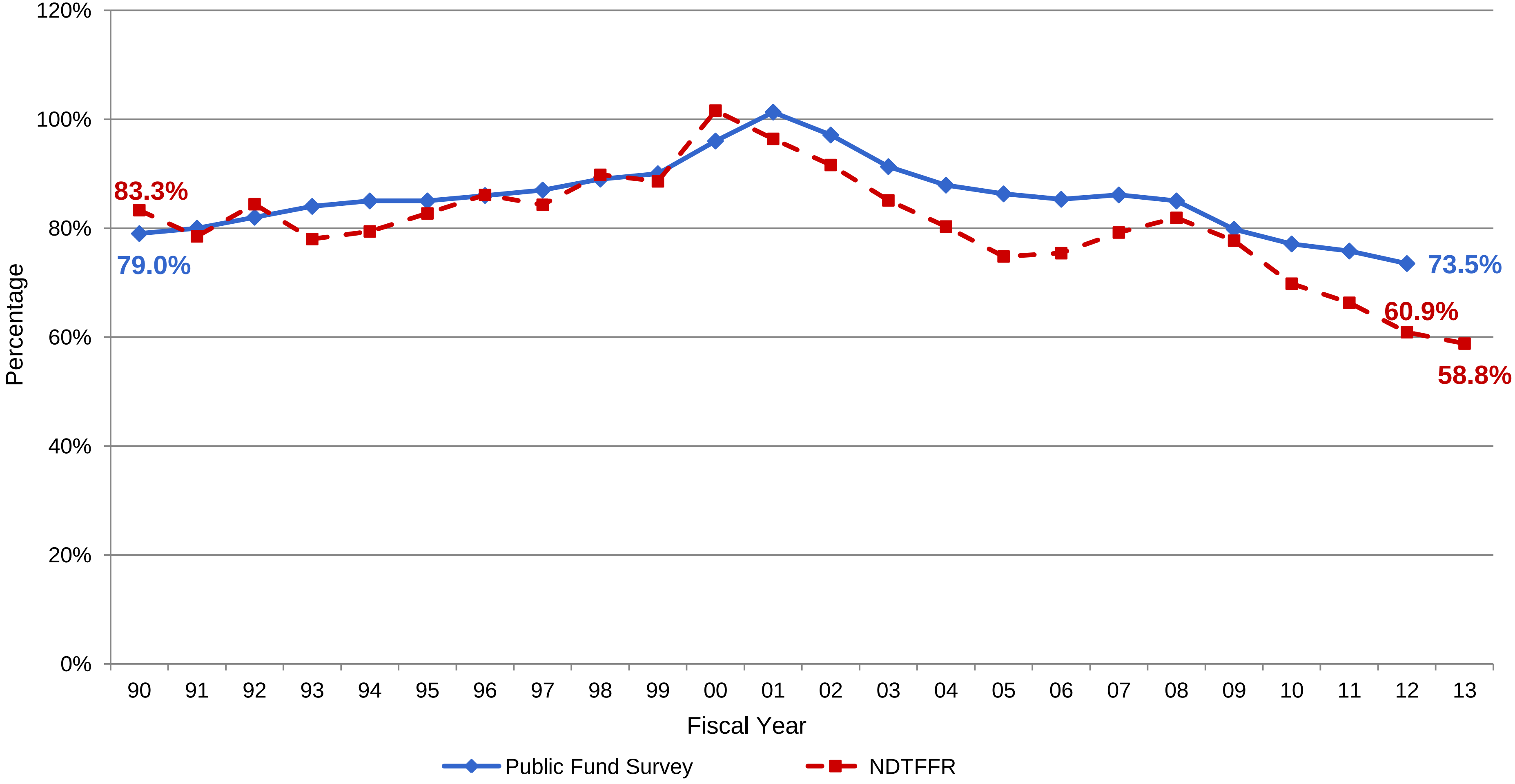
- According to the 2012 Public Fund Survey, public pension funding levels declined from 75.8% in FY11 to 73.5% in FY12.
  - NDTFFR declined from 66.3% in FY11 to 60.9% in FY12.
  - NDTFFR ranking is 98 of 126 plans in 2012 Survey. (Last year, ranking was 88 of 126 plans in Survey)
- Note the substantial effect of investment returns on a pension plan’s funding level
  - Investment market performance was relatively strong during the 1990s, followed by two periods, from 2000-02 and 2008-09, of sharp market declines.

Actuarial Funding Levels

- Other factors also have an effect on a plan's funding level, including actual contributions made relative to required contributions, changes in benefit levels, and rates of employee salary growth.

- Pension funding levels may continue to drift lower due to phasing of investment gains and losses over a number of years. Once all 2008-09 investment losses have been factored in to actuarial calculations, funding levels are expected to begin to improve.

Change in Actuarial Funding Levels

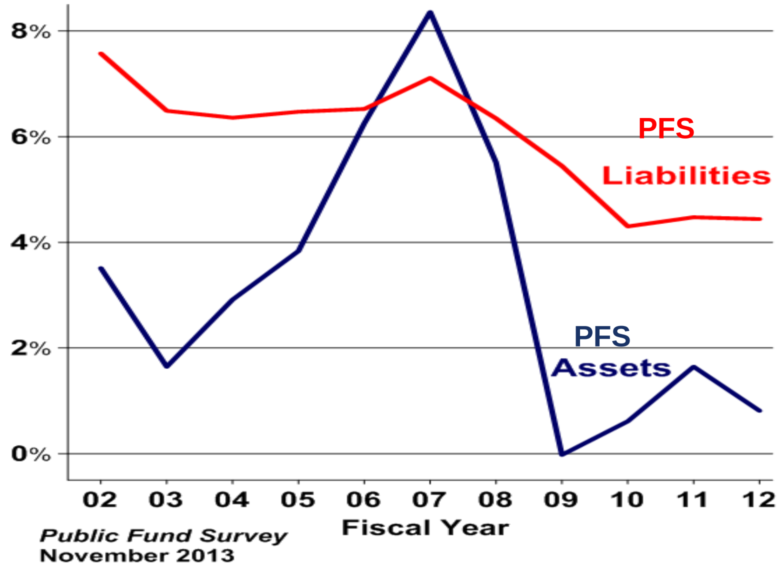


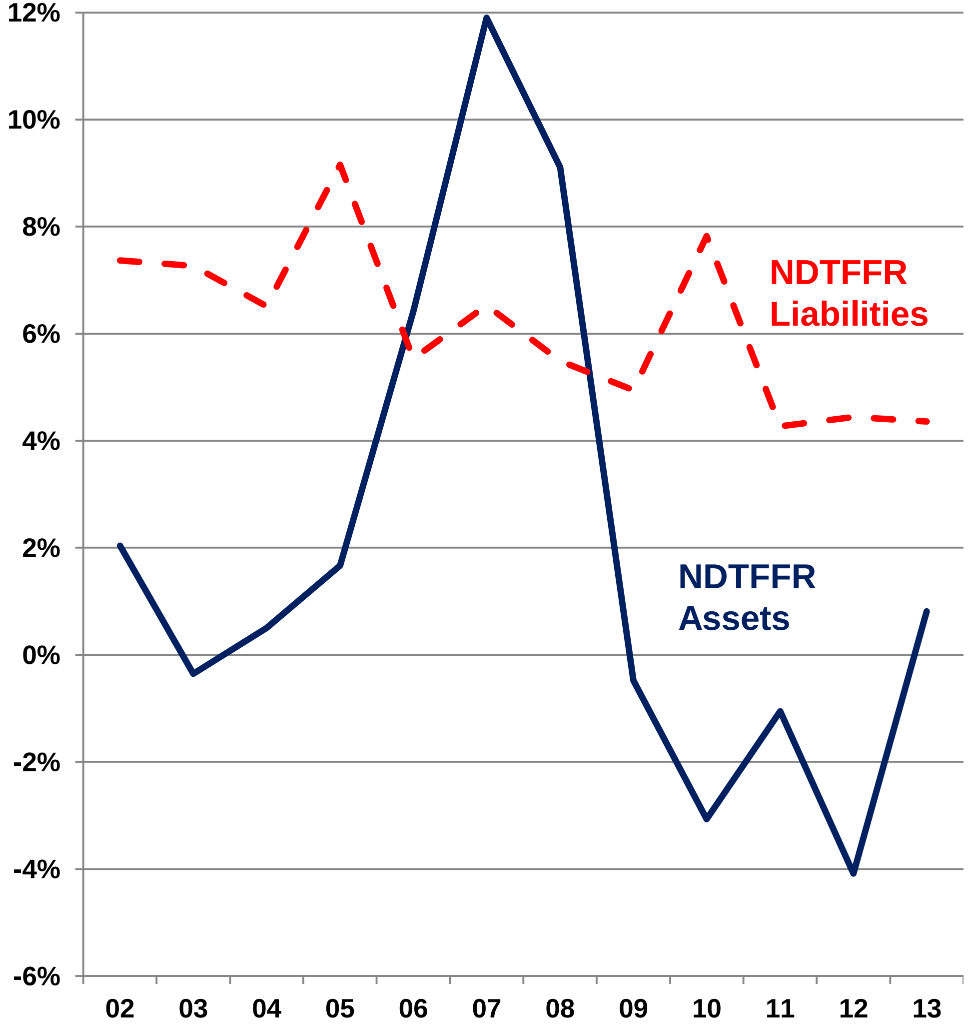
*Note: 1990-2000 PFS funding level numbers are biannual

Actuarial Assets and Liabilities

- For most plans in the PFS, liability growth has declined noticeably since the onset of the recession in 2007.
  - Declines in rate of liability growth can be offset by the effects of changes in actuarial assumptions. The many plans that have reduced their investment return assumption in recent years is sustaining what otherwise would be an even lower median rate of liability growth.
- Tepid asset growth reflects the actuarial smoothing of assets of the sharp market declines experienced in 2008 and 2009, exacerbated by low returns in FY 12 for most funds.
- For NDTFFR, liability growth has declined, but changes in actuarial assumptions (following experience studies) increased liabilities in 2005 and 2010.
- NDTFFR asset growth has followed similar trends as the PFS, although returns were more volatile.

Change in Actuarial Assets & Liabilities





Membership Changes

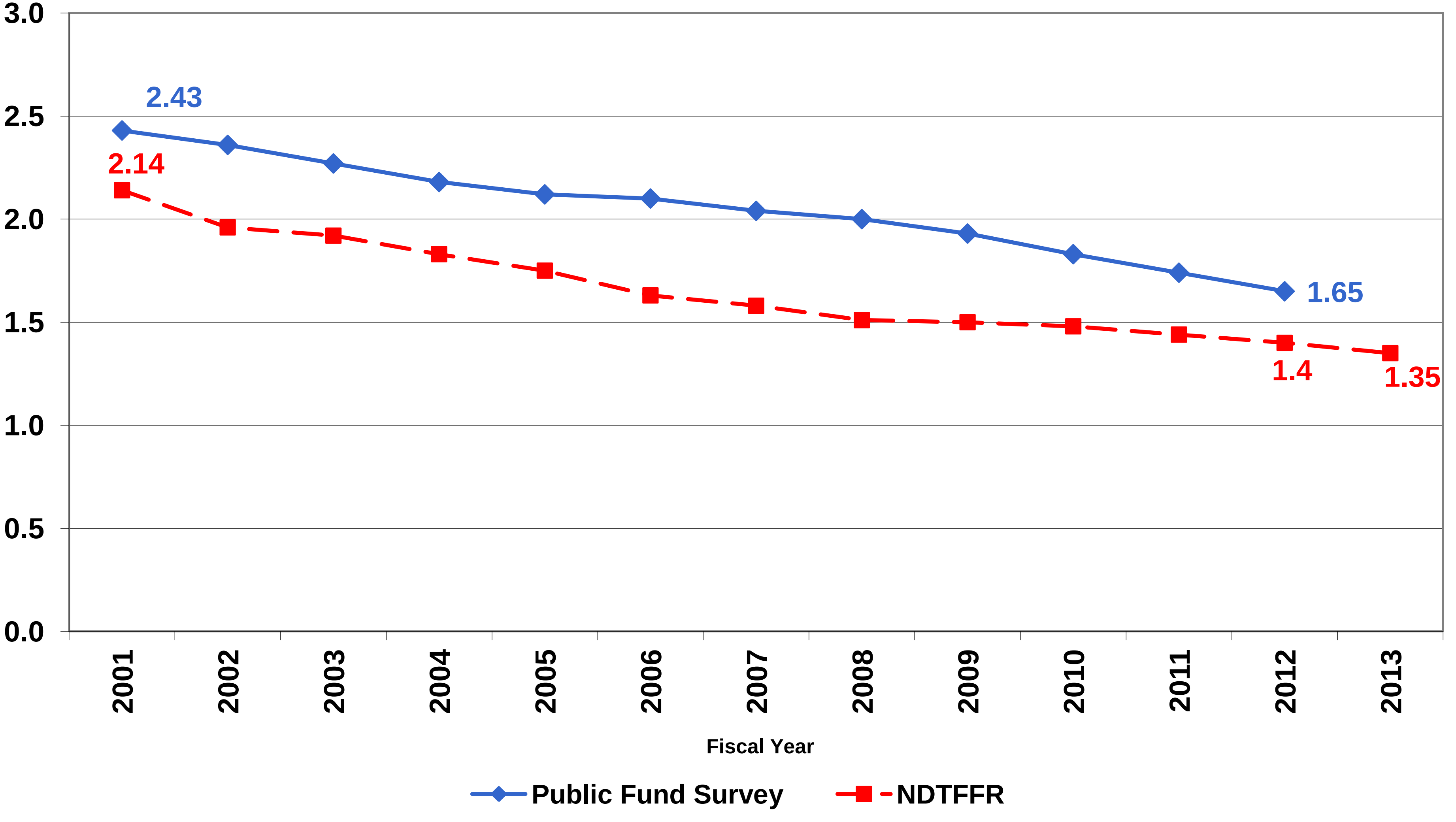
- Number of active members continues to decline which reflects the steady decline in the number of state and local government employees beginning in 2008 according to US Labor Statistics.

- Number of retirees continues to grow.

- The difference between the continued increase in annuitants and a declining number of active members is driving a sustained reduction in the overall ratio of actives to annuitants. In FY12, this ratio dropped to 1.65 according to 2012 PFS.
  - For NDTFFR in FY 12, the ratio was 1.40.

- By itself, a low or declining ratio of actives to retirees is not problematic for a pension plan. However, when combined with a poorly-funded plan with a high unfunded liability, the cost as a percentage of payroll of amortizing a larger UAAL typically is higher when the ratio of actives to annuitants is lower. This results in relatively high required pension costs for plans like NDTFFR.

Change in Active Members per Annuitant



Annual Change in Payroll

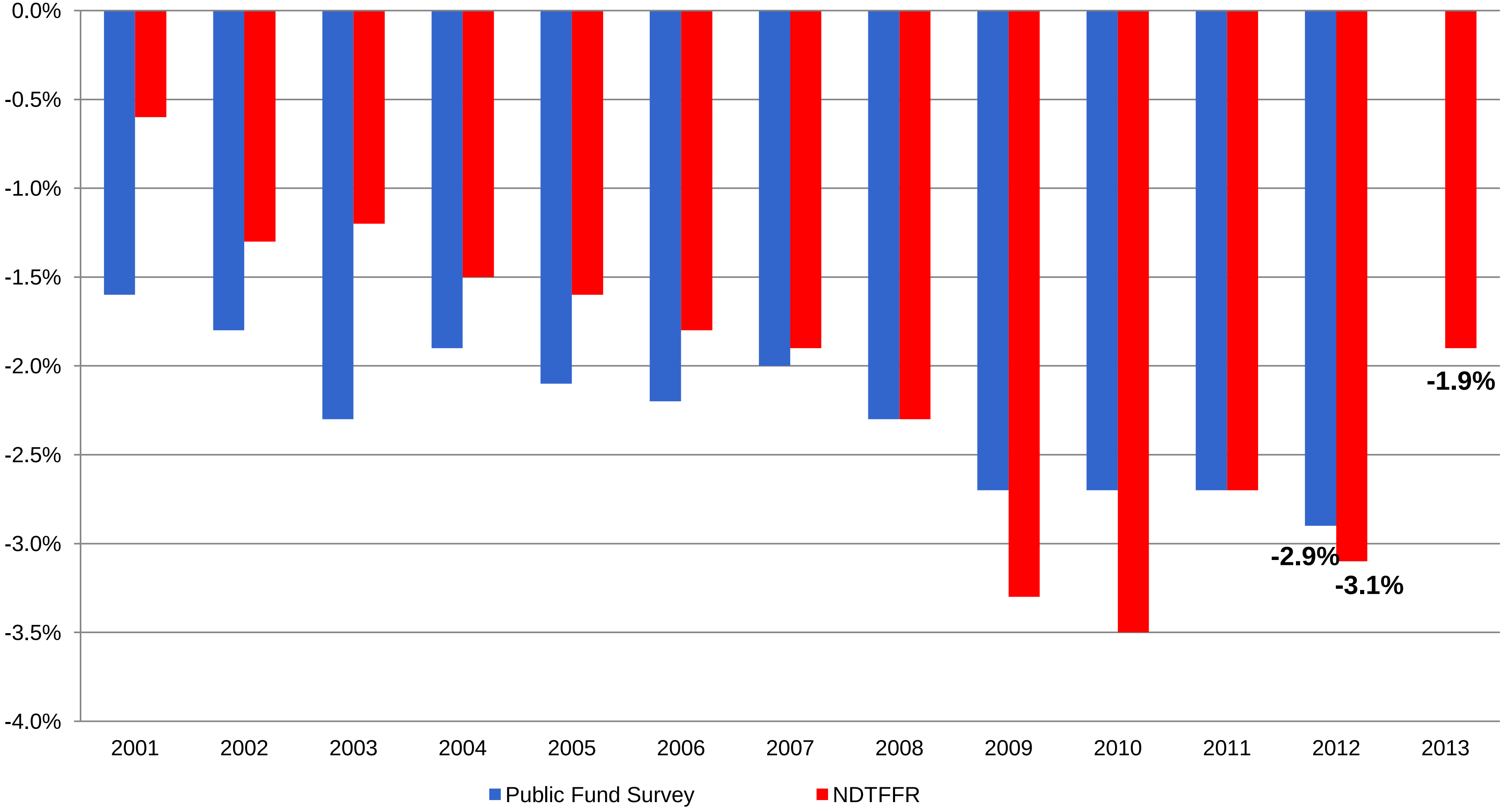
- Median change in active member payroll from FY 11 to FY 12 was zero, although plans' experience covered a wide range (from a decline of 9.8% to an increase of 14%). The low rate of change in payroll reflects:
  - Stagnant or declining employment levels
  - Modest salary growth (US Bureau of Labor Statistics reports the annual growth in wages and salary for employees of SLG has remained below 2.0% since mid 2009.)

- NDTFFR active payroll increased 3.4% from 2011 to 2012. Payroll has increased an average of 4.7% since 2009.

External Cash Flow

- External cash flow is the difference between a systems revenue from contributions, and payouts for benefits and administrative expenses, divided into the value of the system's assets.
- By itself, negative cash flow is not an indication of actuarial distress.
  - Nearly all systems have external cash flow that is negative, meaning they pay out more each year than they collect in contributions.
  - One effect of lower cash flow is to require the system's assets to be managed more conservatively, with a larger allocation to more liquid assets in order to meet current benefit payroll requirements.
- This year's increase in negative cash flow is an outcome of a combination of stagnant asset values and growth in benefit payments that exceeds growth in contributions.
- Survey results show external cash flow changed slightly from -2.7% in FY11 to -2.9% in FY12.
  - NDTFFR external cash flow was -2.7% in FY11, and -3.1% in FY12.

Median External Cash Flow



Contribution Rates

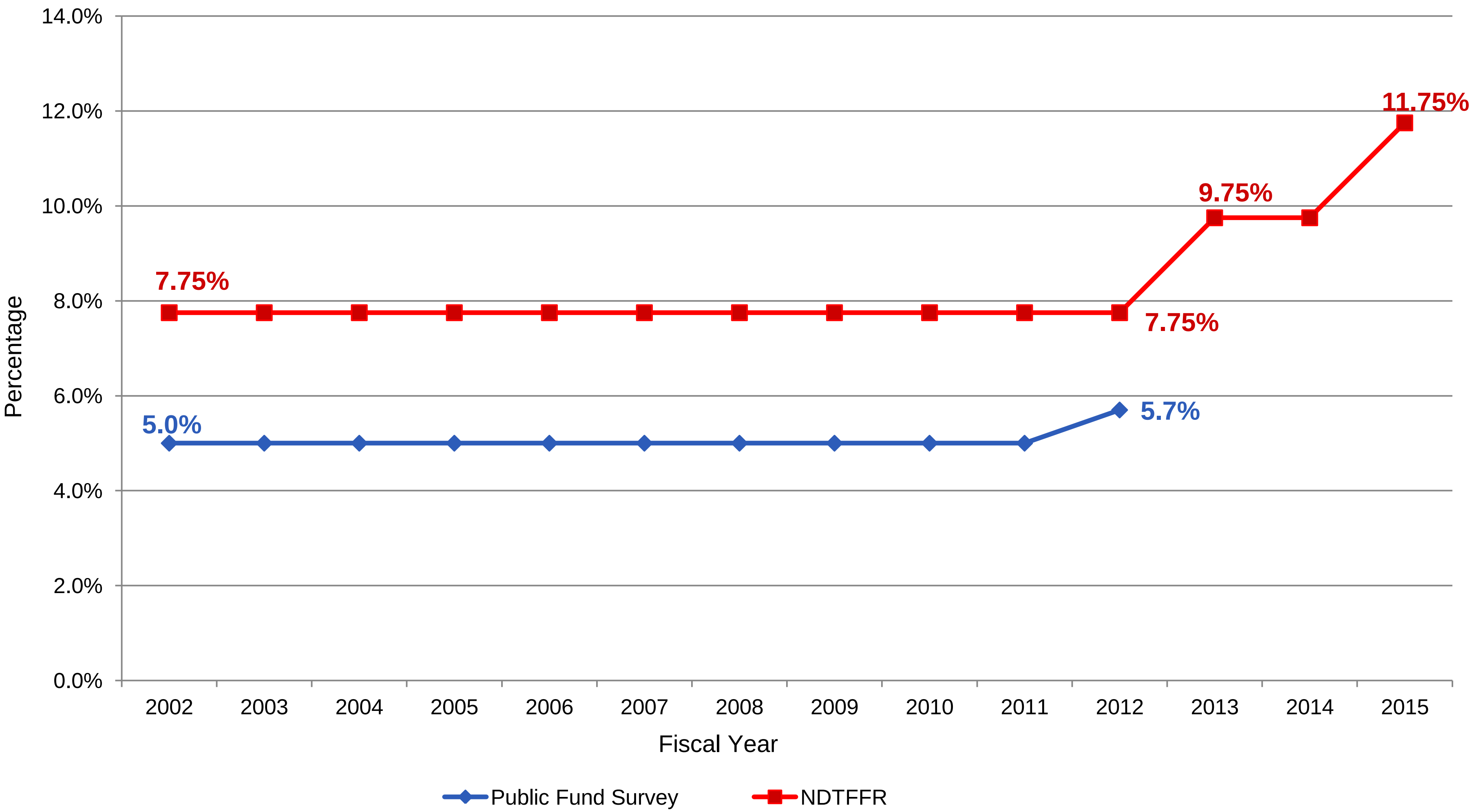
- Variety of arrangements for payment of employee and employer contribution rates.
  - Employee rates are typically fixed % of pay.
  - Employer rates may be fixed or floating.
  - Rates may be set by statute, actuarial requirements, board, etc.
- Contribution rates differ on basis of Social Security participation.
- Other considerations include benefit design (existence or lack of an automatic retiree increase, retirement eligibility conditions, benefit multiplier, etc.)
- Also statutory limits, funded status, actuarial assumptions, amortization period, demographics (number of females, retirement rates, termination rates, etc.)

Contribution Rates

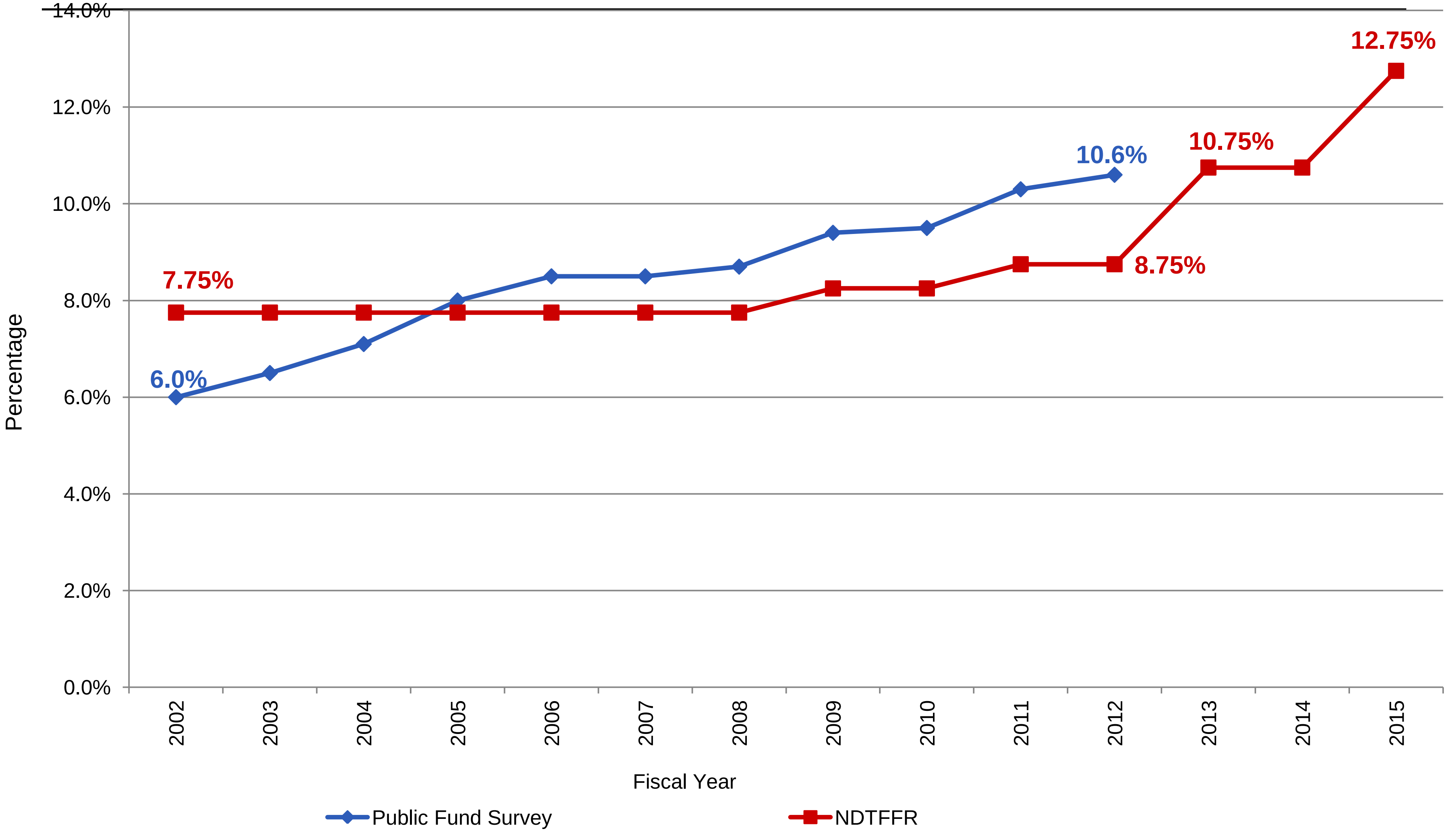
- Median **employer** contribution rates for workers who participate in Social Security rose from 10.3% of pay in FY11 to 10.6% in FY12.
  - NDTFFR employer rate was 8.75% in 2011 and 2012, and increased to 10.75% on 7/1/12 (for FY 2013).

- For the first time since the inception of the survey, the median **employee** contribution rates increased from 5% to 5.7% in 2012 for Social Security eligible workers. This reflects the trend that the most common pension plan change enacted has been an increase in required employee contribution rates.
  - NDTFFR employee rate was 7.75% in 2011 and 2012, and increased to 9.75% on 7/1/12 (for FY 2013).

Employee Contribution Rates



Employer Contribution Rates



Annual Required Contributions

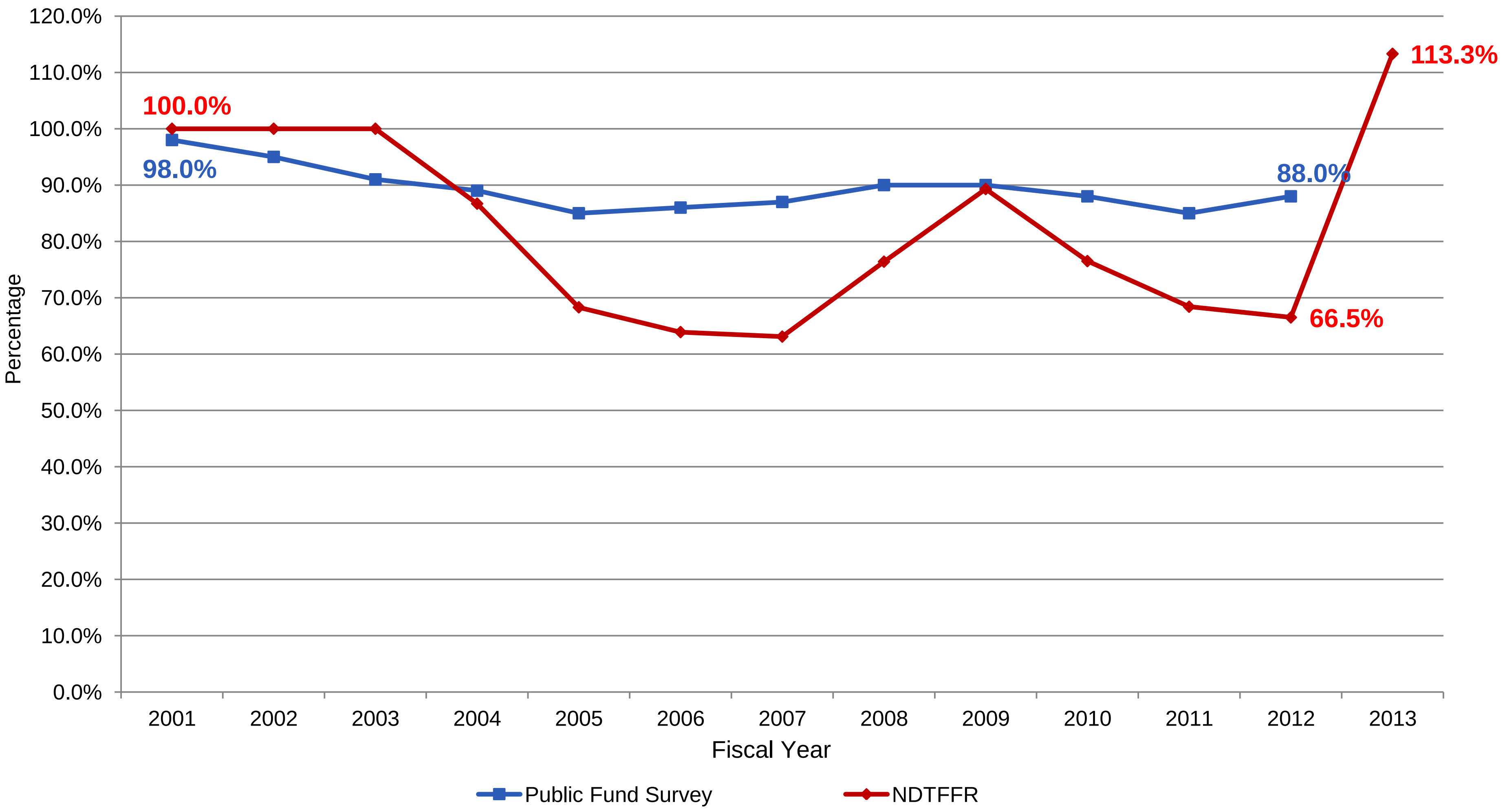
- Annual required contribution (ARC) is amount needed to fund benefits accrued in the current period (normal cost) plus the amount necessary to amortize the plan's unfunded liability over a designated period (amortization period).

- Investment market losses experienced by public pension funds in 2008-09 increased public pensions' unfunded liabilities, which, in turn, increases the cost of the plan. Meanwhile, the Great Recession decimated SLG revenues, from which plan sponsors are still recovering. On a national basis, the resulting effect of the combination of higher plan costs and reduced government revenue has been a reduction in contributions relative to the ARC.

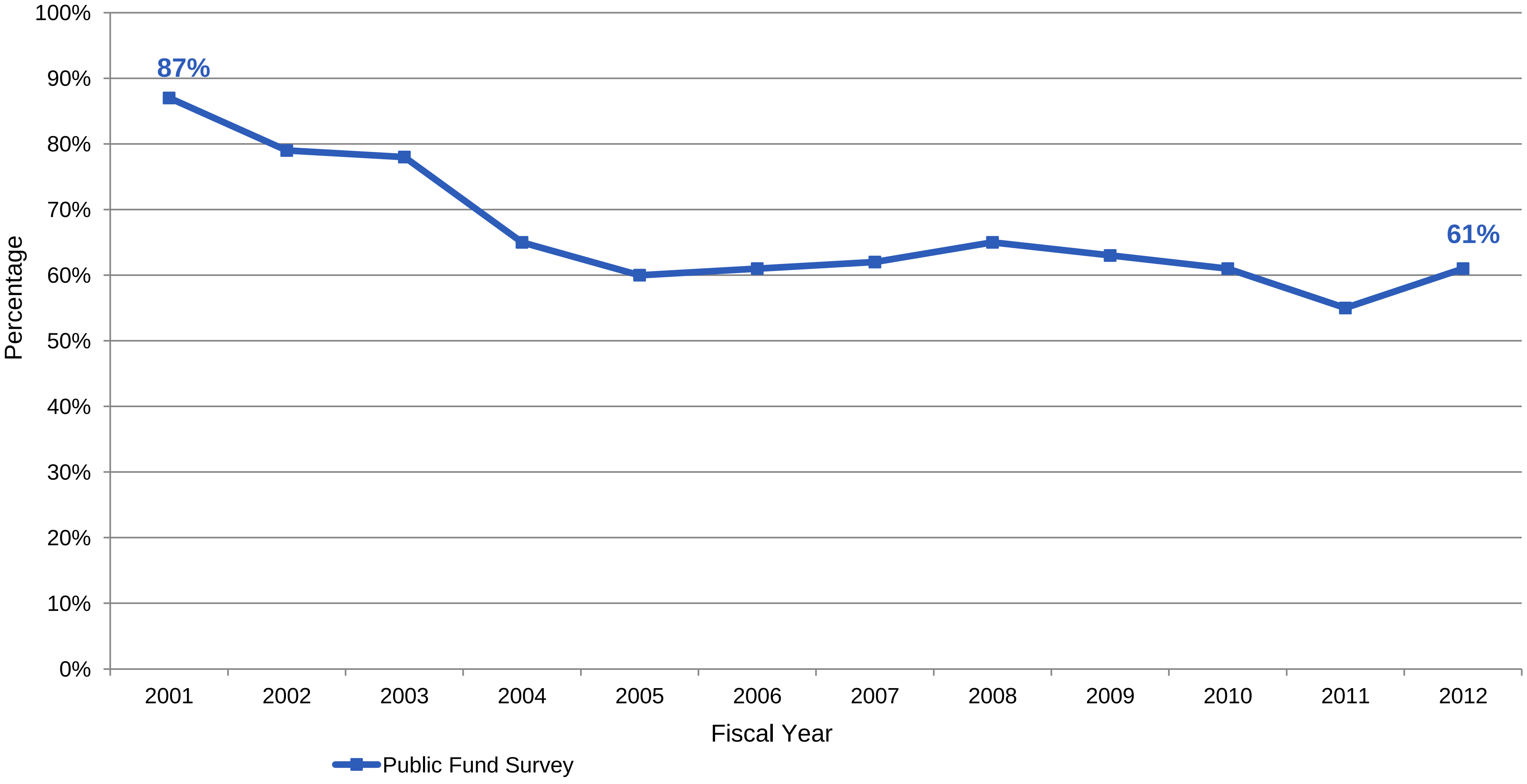
- Efforts to fund public pensions, in general, are stabilizing after a period of declining ARC effort during and after the Great Recessions. This "declining" effort occurred despite increasing contributions from both employees and employers, as required pension costs grew faster than the contributions that were made.

- The average ARC received by pension plans rose slightly to about 88%.
  - NDTFFR received 66.5% of ARC in 2012.

Average ARC Received



Plans Receiving 90%+ of ARC

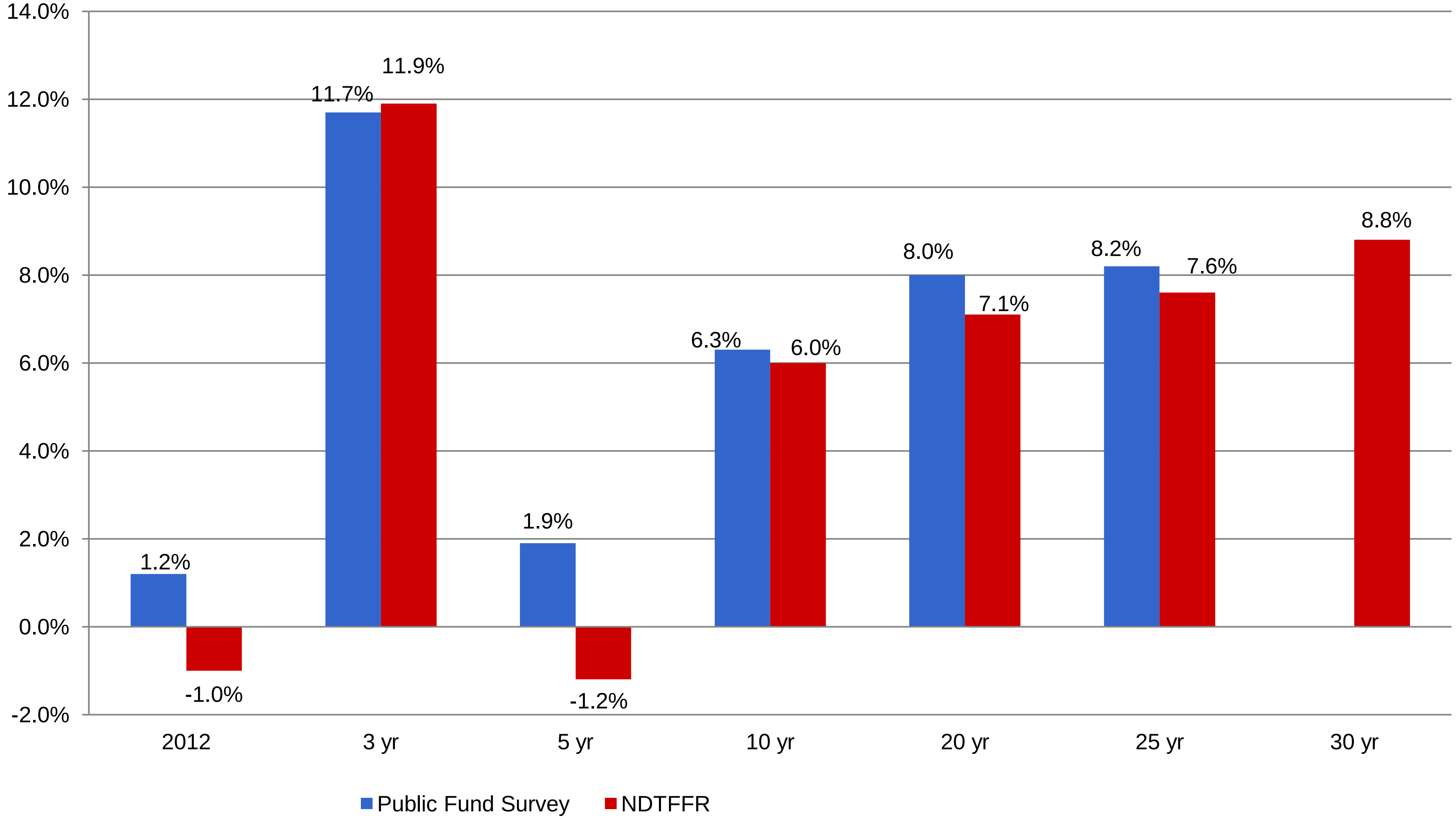


Investment Returns

- Median investment return for plans with FY end date of 6/30/12 (about ¾ of the survey participants), barely exceeded 1%.
  - NDTFFR return was -0.97% (net of fees)

- Returns for 5-year periods ended in FY 12 remain depressed, as they continue to reflect the result of the sharp decline in 2008-09. For longer periods, particularly 10 years and higher, median public pension fund returns are closer to the investment return assumptions used by most plans.

Median Annual Investment Returns (net)



Actuarial Assumptions

- Actuarial valuation contains many assumptions:
  - Retirement rate
  - Mortality rate
  - Turnover rate
  - Disability rate
  - Investment return rate
  - Inflation rate
  - Salary increase rate

- Last Experience Study was conducted after the 2009 valuation report, and delivered in January 2010.
- Next scheduled Experience Study will be conducted after the 2014 valuation report, and delivered in 2015.

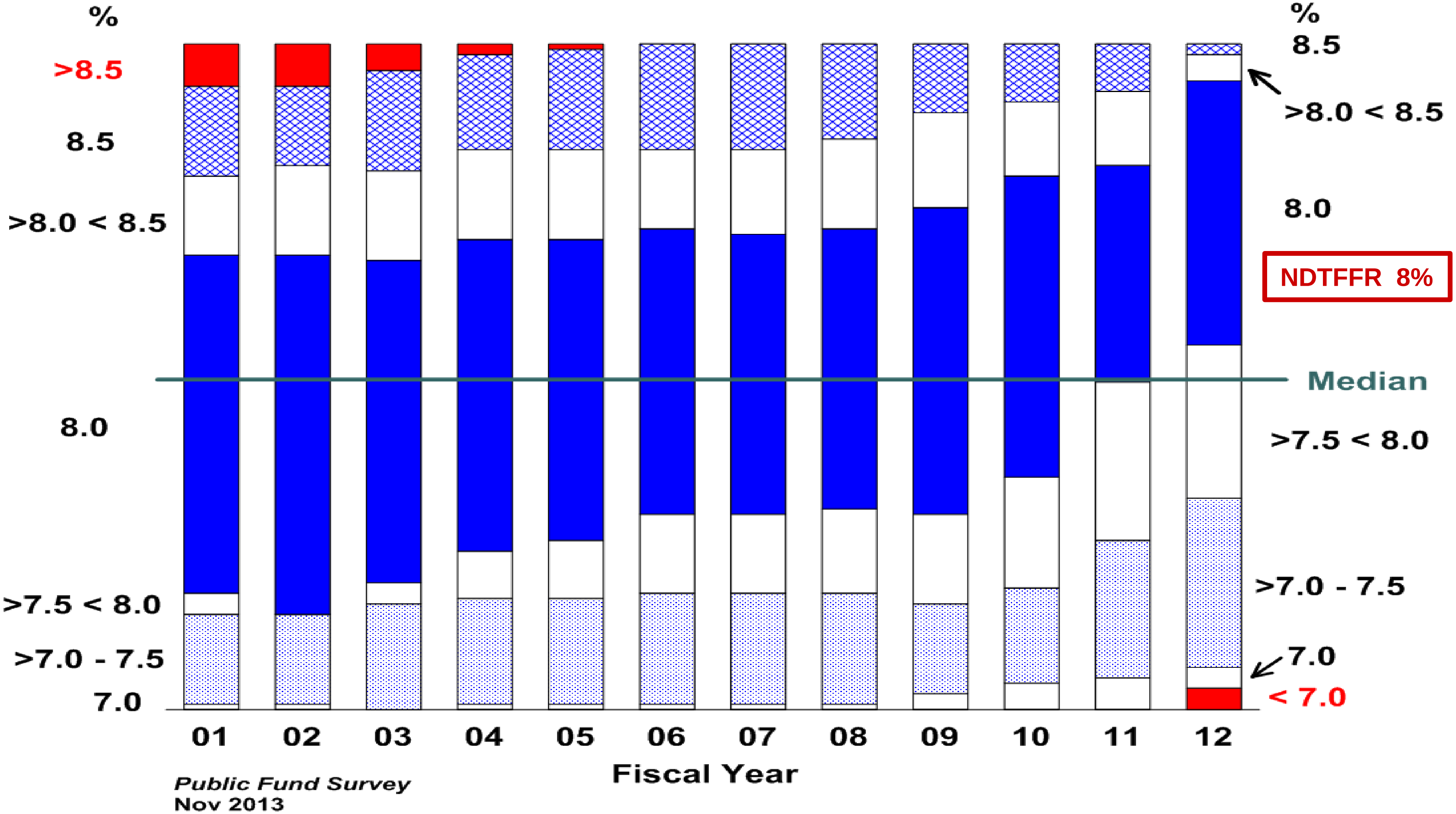
Investment Return Assumption

- Of all assumptions, a public pension plan's investment return assumption has the greatest effect on the long-term cost of the plan. Because a majority of revenues of a typical fund come from investment earnings, even a minor change in a plan's investment return assumption can impose a disproportionate impact on a plan's funding level and cost.
- Investment assumption is made up of 2 components
  - Inflation assumption
  - Real return assumption which is investment return net of inflation.

Investment Return Assumption

- The most common investment return assumption used by public pension plans was 8.0% in the past (through 2011).
- Since 2009, an unprecedented number of plans have reduced their investment return assumption.
- Median investment return assumption is 7.9% in 2012.
  - ND TFFR investment return assumption is 8.0% (3% inflation and 5% real return).
- Notable points:
  - Reduction in median assumption below 8%
  - Abandonment of rates above 8.5%
  - Adoption for the first time, of a rate below 7% (Indiana and DC).

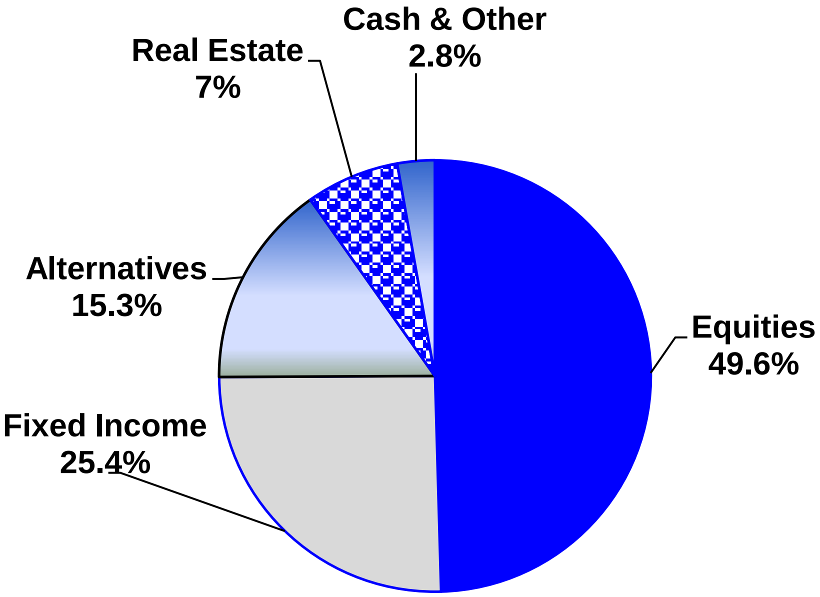
Investment Return Assumption



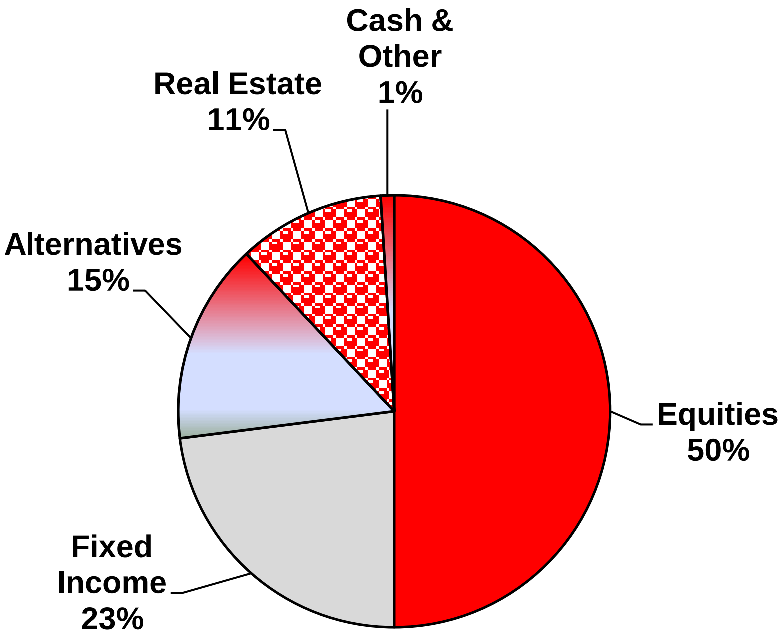
Asset Allocation

- Key secular trends continued in FY 12, including:
- Slow, but steady decline in the average allocation to public equities.
- Consistent increase in allocations to real estate and alternatives.
- Reversing a long-term trend, after reaching its lowest-ever point in FY 11, the allocation to fixed income rose in FY 12 for the first time, to 25.4%.

Asset Allocation



Public Fund Survey
Fiscal Year 2012



NDTFFR
2012

Conclusion

- Decline in public pension funding levels, triggered chiefly by market declines in 2008-09, is expected to continue through 2013, but should then begin to improve.
- Decline continues to serve as primary catalyst for plan changes (contribution increases and benefit reductions) made by many states and other pension plan sponsors.
- Currently a very difficult operating environment featuring volatile investment markets, criticism of public employees and their benefits, and challenging fiscal conditions facing most states and cities.
- Most public retirement systems strive to maintain sound investment management and governance practices, and seek opportunities to continuously improve in those areas.

Until next year's survey….Questions?

MEMORANDUM

TO: TFFR Board

FROM: Fay Kopp

DATE: January 16, 2014

SUBJ: Annual Retirement Trends Report

Shelly Schumacher, Retirement Program Manager, will distribute and present the TFFR Annual Retirement Trends Report at the January meeting.

The Retirement Trends report shows the number of TFFR members who have retired in recent years, and projects how many members are expected to retire in the future. Due to recent legislative changes relating to retirement eligibility for Tier 1 nongrandfathered and Tier 2 employees, projections of future eligible retirees will look different than they have in the past.

Please note that in developing this report, we receive work title information from DPI and licensure information from ESPB to provide a breakdown by superintendents, other administrators, teachers, and special teachers.

North Dakota Teachers' Fund for Retirement

Retirement Trends and Projections

January 2014

Retirement: Now or Later?

The decision to retire is intensely personal and prompted by both non-financial and financial reasons.

- Non-financial considerations:
  - Health of teacher (and spouse)
  - Family issues (spouse, children, parents)
  - Personal reasons (job satisfaction vs. job stress)
  - Federal regulations
  - State and local issues (school closings, school consolidations)
- Financial considerations:
  - Salary vs. Retirement benefits
  - Health insurance benefits – rising cost of medical care
  - Employment in retirement
  - Inflation

TFFR Members

- TFFR member count includes number of people, not FTE's.
- TFFR members may be full time, part time, or temporary teachers, but must be licensed and contracted. Noncontracted substitute teachers are not TFFR members.

TFFR Member Categories

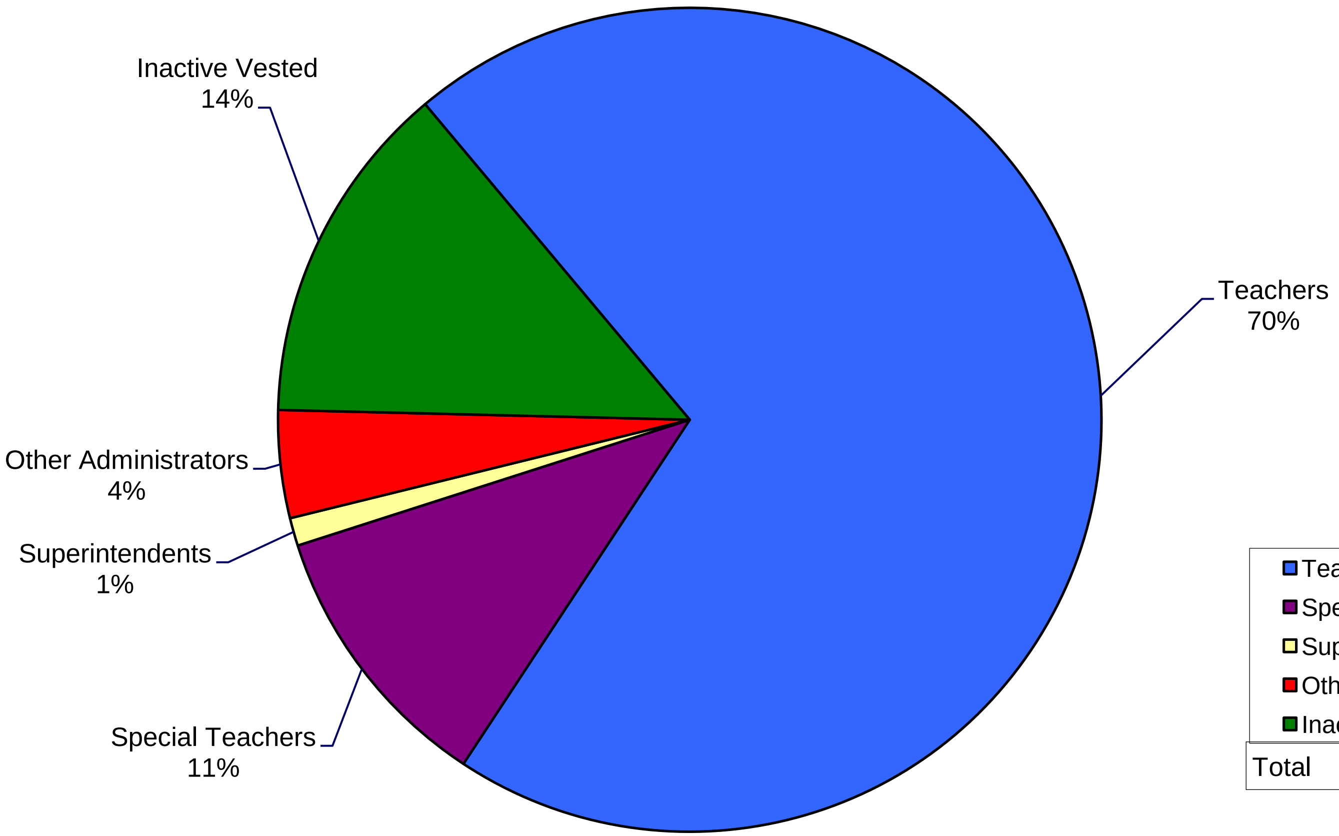
TFFR member categories are based on DPI title codes and presented according to teacher and administrator categories defined in NDCC 15.1-02-13.6.

- “Teacher” includes positions of teacher, special ed teacher, and tutor in training.
- “Special Teacher” includes positions of coordinator, counselor, instructional programmer, library media specialist, pupil personnel, psychologist, speech/language pathologist, supervisor.
- “Superintendent” includes only school superintendents.
- “Other Administrators” includes positions of assistant superintendent, director, assistant director, principal, assistant principal, county superintendent, and other administrative positions.

Today

Current TFFR Membership

There are 12,125 active and inactive vested TFFR members in January 2014.



Teachers	8,533
Special Teachers	1,309
Superintendents	133
Other Administrators	512
Inactive Vested	1,638
Total	12,125

Note: There are also 645 inactive non-vested TFFR members and 7,498 retired members and beneficiaries.

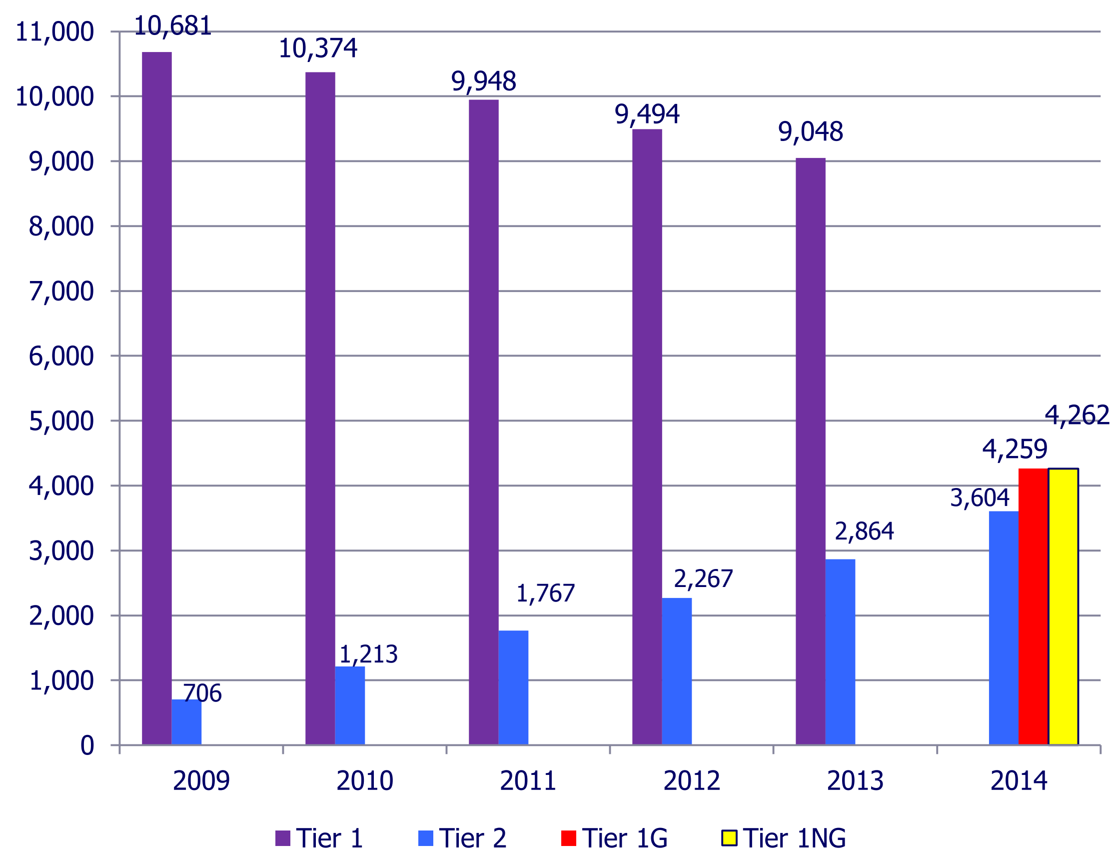
Today

TFFR Tier Membership

Active and inactive vested Tier membership in January 2014.

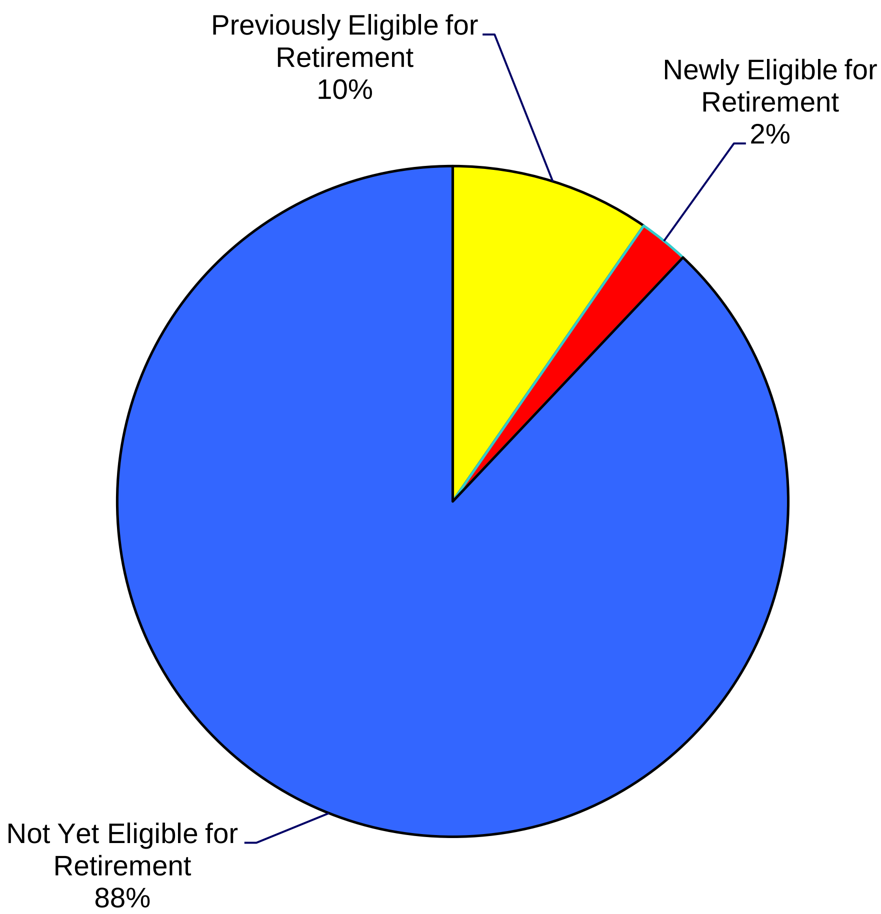
TFFR Members	Tier 1G	Tier 1NG	Tier 2	Total
Teachers	2,806	2,821	2,906	8,533
Special Teachers	404	336	569	1,309
Superintendents	79	33	21	133
Other Administrators	243	201	68	512
Inactive Vested	727	871	40	1,638
Total	4,259	4,262	3,604	12,125

TFFR Tier Membership History



Today

Current Active TFFR Membership Eligible for Retirement



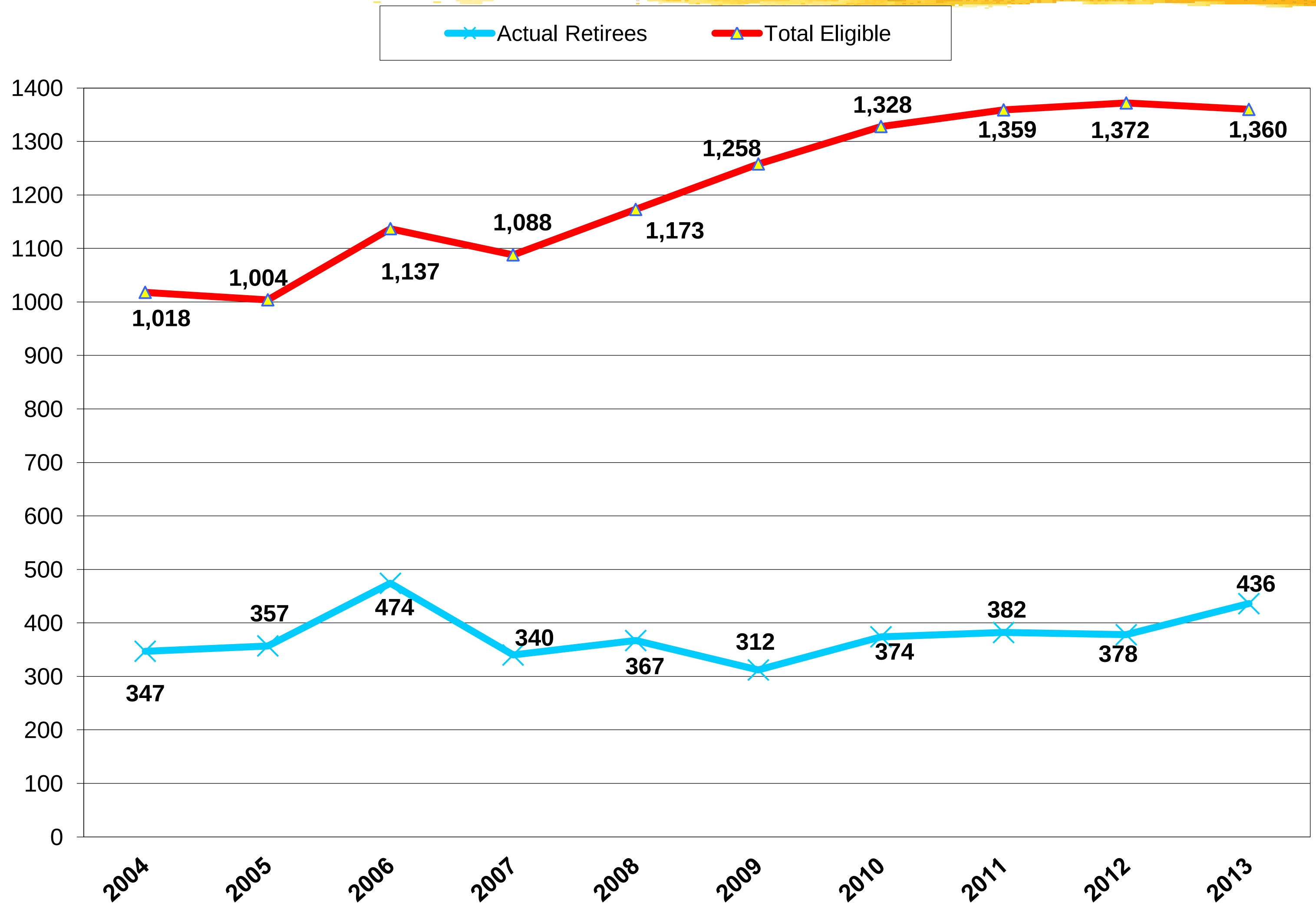
Of the 10,487 active TFFR members, 1,262 members are currently eligible to retire (12%) either under the Rule of 85, Rule of 90/Min age 60, or age 65.

Of the 1,262 active TFFR members eligible to retire, 80% are previously eligible and 20% are newly eligible in 2013-14.

Previously Eligible	1,011
Newly Eligible in 2013/14	251
Not Eligible	9,225
Total	10,487

Yesterday

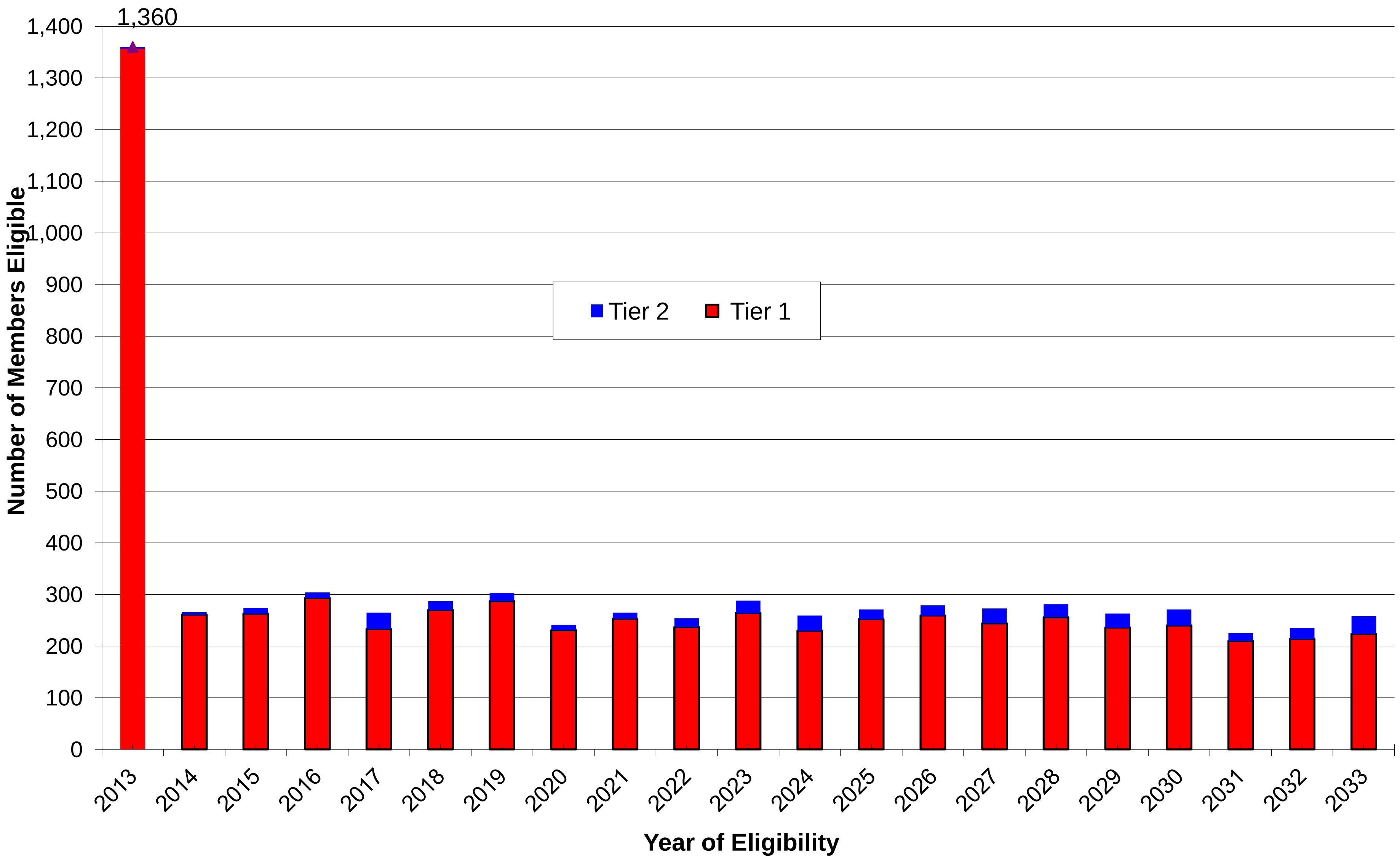
Actual Retirees and Total Eligible



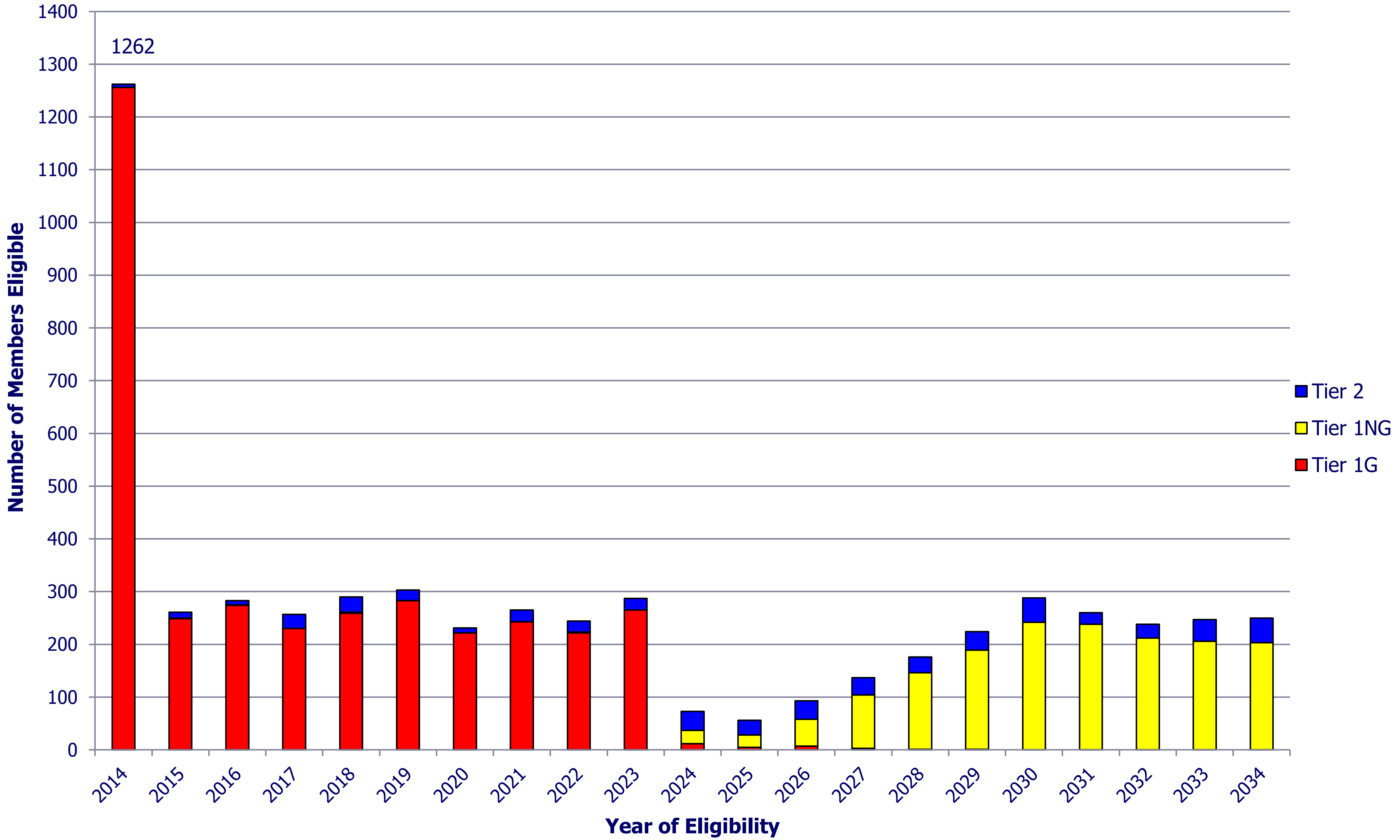
10 Year History 2004-2013

- On average, 1,200 teachers have been eligible to retire each year over the last 10 years.
- On average, 375 teachers actually retired each year, or total of over 3,750 for 10 year period.
- Approximately 31% of eligible members actually retired over the past 10 years.

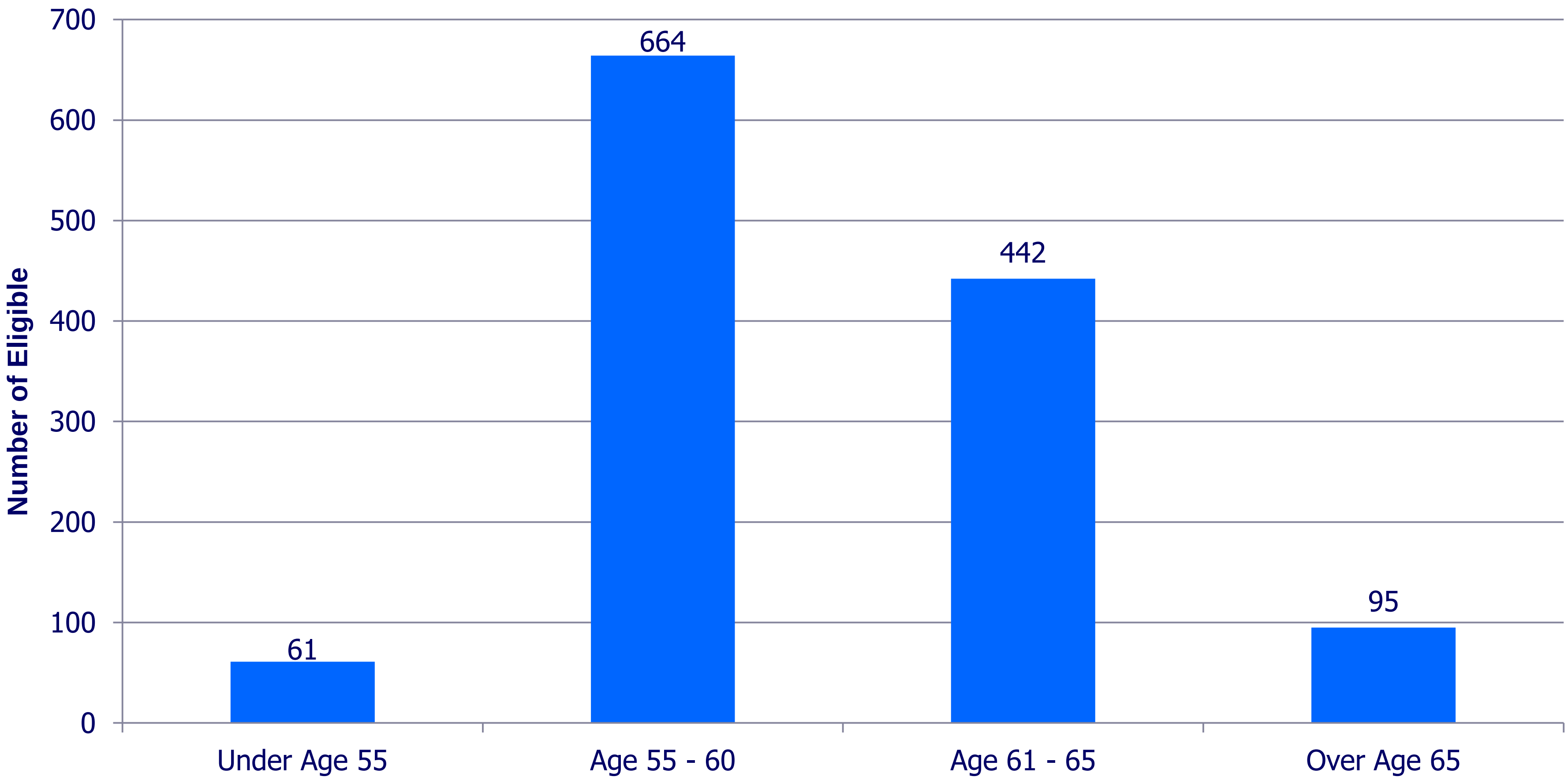
Eligibility Profile Before Grandfathering January 2013



Eligibility Profile After Grandfathering January 2014

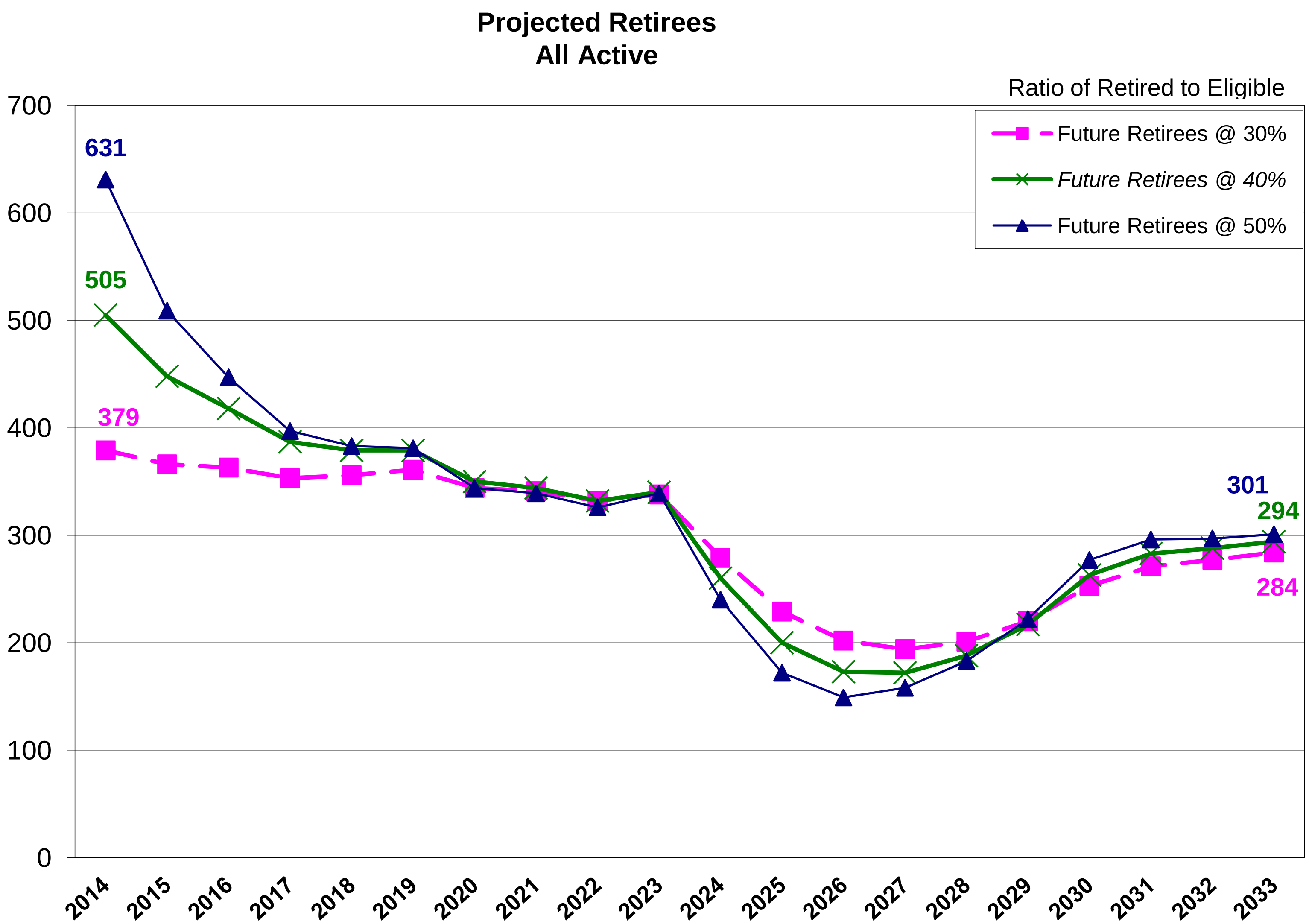


Current Eligible in 2014 by Age



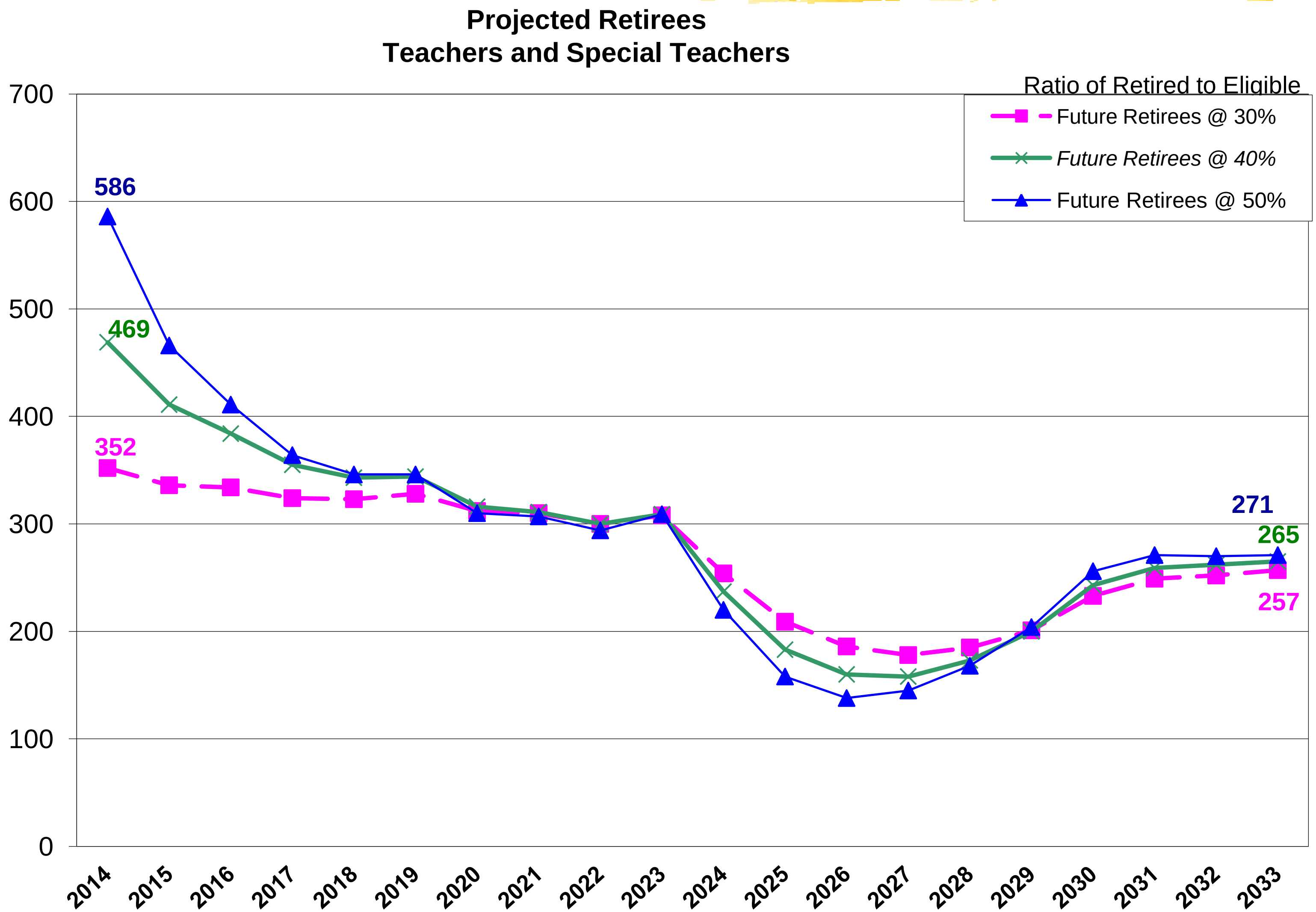
NOTE: Of the 1,262 total eligible, the youngest is age 52 and the oldest is age 78.

Tomorrow???



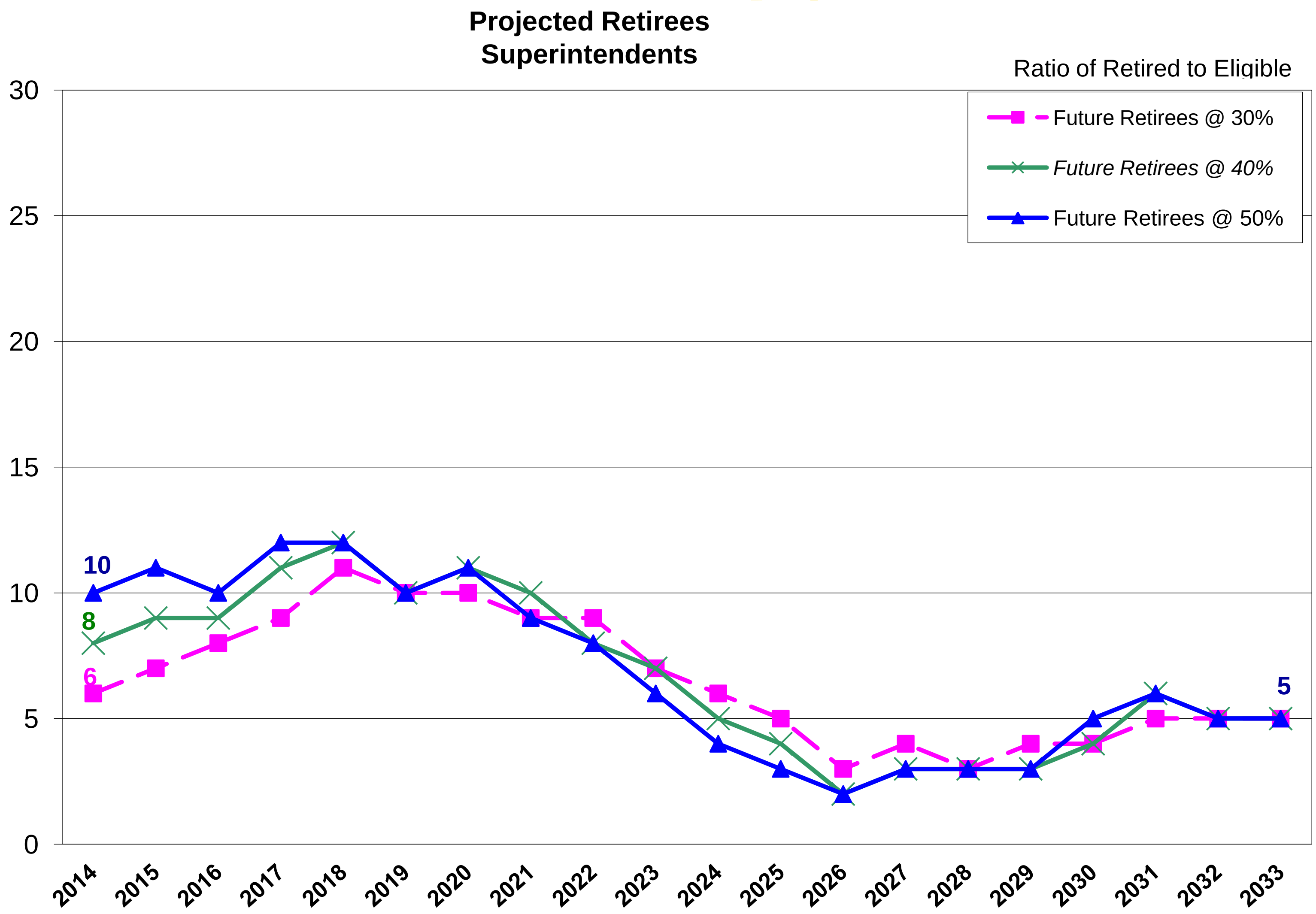
Based on ratios of 30%, 40%, and 50% of actual retirements to eligible retirements, the number of active members projected to retire in the next 20 years.

Tomorrow???



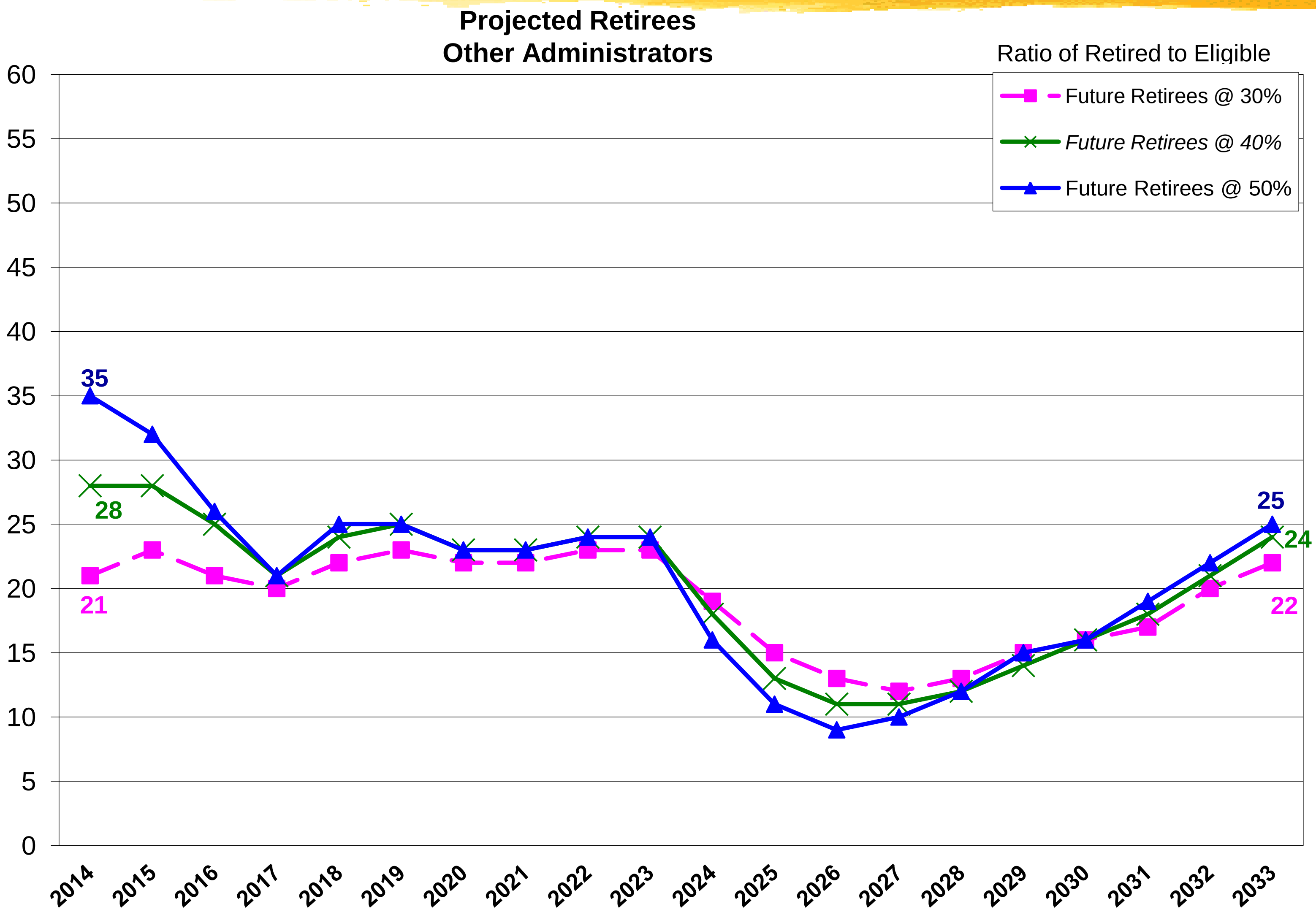
Based on ratios of 30%, 40%, and 50% of actual retirements to eligible retirements, the number of teachers and special teachers projected to retire in the next 20 years.

Tomorrow???



Based on ratios of 30%, 40%, and 50% of actual retire-ments to eligible retirements, the number of superintendents projected to retire in the next 20 years.

Tomorrow???



Based on ratios of 30%, 40%, and 50% of actual retire-ments to eligible retirements, the number of other administrators projected to retire in the next 20 years.

Summary

Based on ratios of 30% and 40% of actual retirements to eligible retirements, approximately 3,500 to 3,900 active members are projected to retire in the next 10 years which averages about 390 per year.

	Members	# Retire		Avg/Yr	
		30%	40%	30%	40%
Teachers and Special Teachers	9,842	3,227	3,542	323	354
Superintendents	133	86	95	9	10
Other Administrators	512	220	245	22	25
Total Active Members	10,487	3,533	3,882	353	388

Note: All retirement projections are estimates only.

MEMORANDUM

TO: TFFR Board

FROM: Fay Kopp

DATE: January 16, 2014

SUBJ: 2015 Legislative Planning

By statute, the TFFR Board "shall submit to the Legislative Employee Benefits Program Committee any necessary or desirable changes in statutes relating to the administration of the fund."

The deadline to submit bill drafts to the Committee is April 1, 2014. Therefore, the TFFR Board will begin this discussion at the January 23 meeting. Legislative proposals must be finalized at the March 27 meeting so they can be submitted by the April 1 deadline.

As you may recall, the TFFR Board spent most of the 2009-11 interim planning for funding improvement changes which were submitted by the Board and approved by the Legislature in 2011. These changes have been phased in over the past few years (contribution increases 7/1/12 and 7/1/14 and benefit changes 7/1/13). Enclosed is a summary of retirement plan changes made since 1977.

At the meeting, I plan to review actuarial funding projections (which were presented by actuary in October). The Board can then discuss whether additional contribution, benefit, or other plan changes are needed. This may also be an appropriate time to discuss alternative plan designs (defined contribution and hybrid plans) to decide if additional study or information is needed.

In addition, technical corrections and administrative changes to statutes are often needed. These changes typically include updating federal references, language, or dates for IRS compliance purposes.

Please be prepared to discuss your thoughts relating to potential 2015 legislation.

Enclosure

History of TFFR Retirement Plan Changes

July 1	Other Plan Changes	Contribution Rates	Benefit Formula	Retiree Benefit Increase	$ Average Increase	% Average Increase	Average Monthly Benefit
2013	• Increased contribution rates in effect until plan is 100% funded.	No Change	No Change	None	-0-	-0-	2013-$1733 2012-$1664
2011	• Increase employer and employee contribution rates (until 90% funded) • For non-grandfathered members, raise retire elig age for unreduced benefits to age 60 w/Rule of 90 and increase reduction factor to 8%. (7-01-13) • Tighten disability retirement eligibility and benefit calculations. (7-01-13) • Clarified definition of salary. (8-01-11)	Effec 7-01-12 10.75% ER 9.75% EE Effec 7-01-14 12.75% ER 11.75% EE	No Change	None	-0-	-0-	2011-$1606 2010-$1564
2009	• Increase employer contribution rates (until 90% funded)	Effec 7-01-10 8.75% ER 7.75% EE	No Change	One time supplemental retiree payment based on formula: $20 per year of service credit + $15 per year of retirement (capped at greater of 10% of annual annuity or $750).	$723 one time payment	-0-	2009-$1514 2008-$1477
2007	• Increase employer contribution rates (until 90% funded) • Create new tier of reduced member benefits (7-01-08): ○ Tier 1 – Rule of 85, 3 yr vesting, 3 yr FAS ○ Tier 2 – Rule of 90, 5 yr vesting, 5 yr FAS • Require employer contributions on re-employed retirees.	Effec 7-01-08 8.25% ER 7.75% EE	No Change	None	-0-	-0-	2007-$1434 2006-$1383
2005	• None.	No Change	No Change	None	-0-	-0-	2005-$1309 2004-$1255
2003	• Clarified definition of salary. • Updated dual membership guidelines. • Added 20 year term certain and partial lump sum distribution (PLSO) options. • Expanded refund & rollover options to purchase service credit. • Allow employers to purchase service credit on behalf of members.	No Change	No Change	None	-0-	-0-	2003-$1203 2002-$1152
2001	• Modified retiree employment provisions by adding exceptions for critical shortage areas and educational foundation donations, and improved recalculation of retiree benefits after returning to teach.	No Change	2.00% X FAS X Service Credit	Increase equal to $2 month X member's years of service credit + $1 month X number of years since member's retirement, plus 0.75% annual adjustment for 7-1-01 and 7-1-02.	$78.00	7.8%	2001-$995 2000-$970
1999	• Vesting reduced from 5 to 3 years. • Early retirement reduction changed from age 65 to earlier of age 65 or Rule of 85. • Purchase of service credit modified; air time and leave of absence added. • Member's spouse required to be beneficiary and spousal consent to choice of benefit option.	No Change	1.88% X FAS X Service Credit	Increase equal to $2 month X member's years of service credit + $1 month X number of years since member's retirement.	$70.00	8.5%	1999-$833 1998-$810

History of TFFR Retirement Plan Changes

July 1	Other Plan Changes	Contribution Rates	Benefit Formula	Retiree Benefit Increase	$ Average Increase	% Average Increase	Average Monthly Benefit
1997	• Allow rollovers to purchase service credit. • Expand TFFR Board to 7 members.	7.75% ER 7.75% EE	1.75% X FAS X Service Credit	$30 month increase.	$30.00	4.1%	1997-$729 1996-$719
1995	• Allow members to rollover refunds from TFFR to IRA or qualified plan.	No Change	No Change	None	-0-	-0-	1995-$690 1994-$663
1993	• Disability retirement formula changed to coincide with retirement formula.	No Change	1.55% X FAS X Service Credit	Greater of 10% of current benefit **or** leveling benefit increase based on retirement date and years of service. (Max $100/month)	$75.00	13.80%	1993-$547 1992-$549
1991	• Provisions for military service credit under Veterans' Reemployment Rights Act (VRRA) added.	No Change	1.39% X FAS X Service Credit	Greater of 10% of current benefit **or** leveling benefit increase based on retirement date and years of service. (Max $75/month)	$63.24	14.66%	1991-$513 1990-$415
1989	• “Rule of 85” replaced the “Rule of 90.” • “Pop-up” to single life annuity for joint and survivor options added.. • Level income with Social Security option added.	6.75% ER 6.75% EE	1.275% X FAS X Service Credit	Increase equal to $.05 X years of service X number of years since member’s retirement.	$18.30	5.2%	1989-$361 1988-$352
1987	• Eligibility for disability benefits reduced to one year of service and disability benefit improved. • Vesting for retirement benefits reduced from 10 to 5 years.	No Change	1.22% X FAS X Service Credit	$1.50/mo increase for every year since member’s retirement. Members receiving benefits under 1967 & 1969 formulas rec’d add’t $15/month (Max $75/month)	$27.25	9.1%	1987-$327 1986-$312
1985	• Partial retirement possible at age 62. • Dual membership for vesting of benefits for members under TFFR, PERS, and HPRS.	No Change	1.15% X FAS X Service Credit	1% increase in benefits for every year since member’s retirement, up to 10%. (Max $40/month)	$17.88	7.39%	1985-$269 1984-$242
1983	• "Rule of 90" (age + service = 90) approved. • Employer payment of member contributions allowed. • School day for TFFR purposes set at 4 duty hours. • FAS changed to high 3 years of career.	No Change	1.05% X FAS X Service Credit	Greater of 15% increase in current benefit or $1 per month for every year of service. (Max of $45/month)	$29.78	15.93%	1983-$221 1982-$187
1981	• Early retirement age reduced to age 55. • Eligibility for disability benefits reduced from 15 to 10 years.	No Change	No Change	None	-0-	-0-	1981-$182 1980-$174
1979	• New benefit formula using multiplier, years of service and final average salary (high 5 of last 10 years). • Normal retirement @ 65 w/10 yrs or age 60 w/35 yrs service	6.25% ER 6.25% EE	1.0% X FAS X Service Credit	*Certain “pre 1971” retirees received benefit increase based on $6-$7.50 minimum benefit formula	*Unknown	*Unknown	1979-$171 1978-$165
1977	• $14.5 mil transfer from General Fund to TFFR to reduce unfunded liability caused by 1965-75 retiree benefit improvements. • Created interim legislative committee on public employee retirement programs.	5.00% ER 5.00% EE ER $500 contribution cap removed.	Minimum benefit: $6 per month for service up to 25 years + $7.50 per month for service over 25 years (or 1971 formula)	*Certain “post 1971” retirees received benefit increase based on $6/7.50 minimum benefit formula	*Unknown	*Unknown	1977-$164

NDTFFR Board
2015 Legislative Planning

January 23, 2014

Time Line

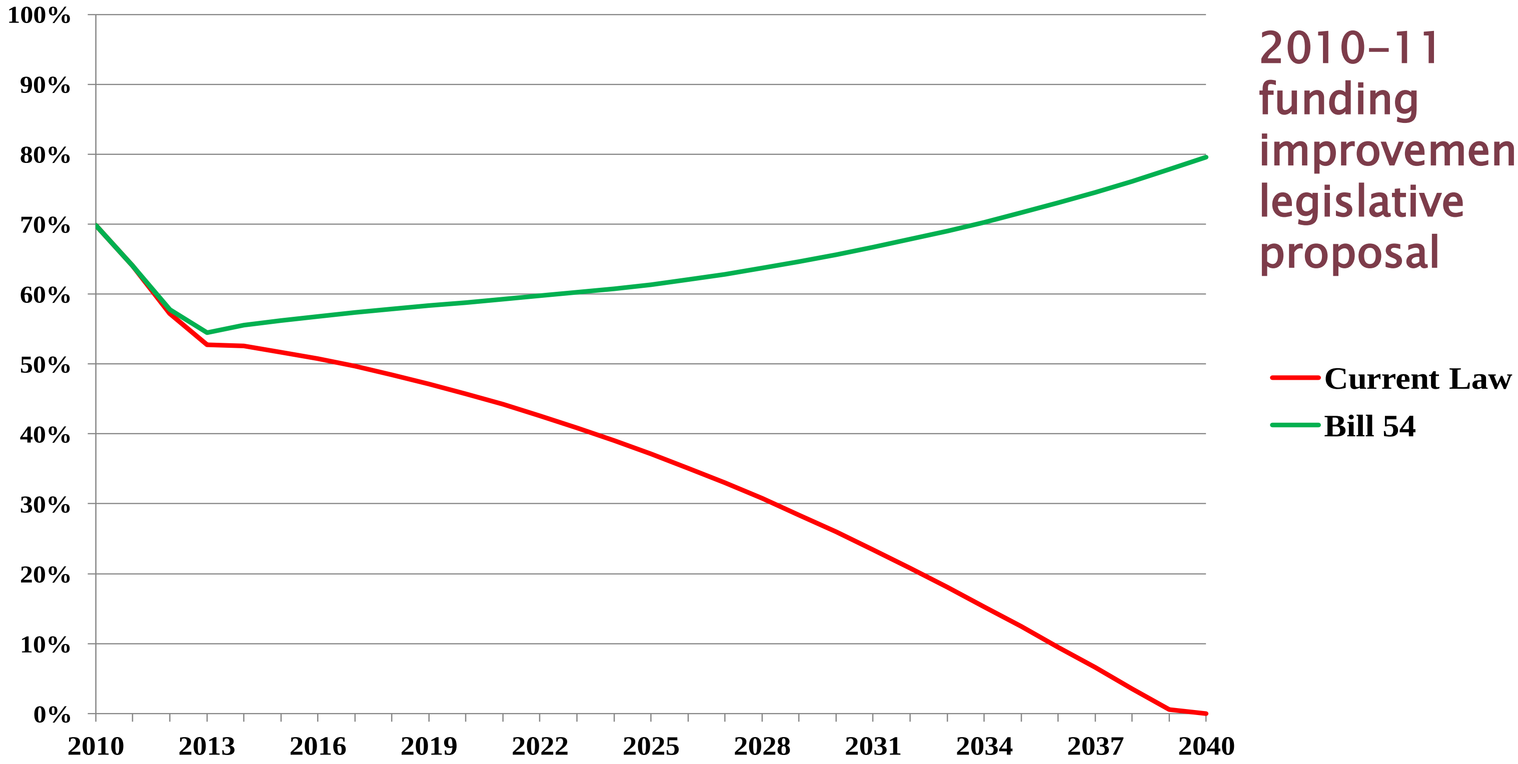
- Jan – March 2014
  - Legislative Planning
- April 1, 2014
  - Deadline to submit bill drafts to Legislative Employee Benefits Programs Committee (LEBPC) for study.
- April – November 2014
  - LEBPC study of legislative proposals, actuarial analysis, public hearings, and Committee recommendation
- December 4, 2014
  - Deadline for agencies to file bills with Legislative Council for 2015 legislative session
- January 6 – April 29, 2015
  - 64th Legislative Session

Current NDTFFR Defined Benefit Plan

2009-10 TFFR Funding Improvement Study Core Principles

- Restore the financial health of the TFFR plan for past, present, and future ND educators.
- Maintain adequate retirement security.
- Share responsibility for funding improvement with employees and employers
- Phase changes over time.
- Protect benefits of those employees closest to retirement.

Projected TFFR Funded Ratio (AVA)
Bill No. 54 – Contribution Increases and Benefit Changes



2010-11 funding improvement legislative proposal

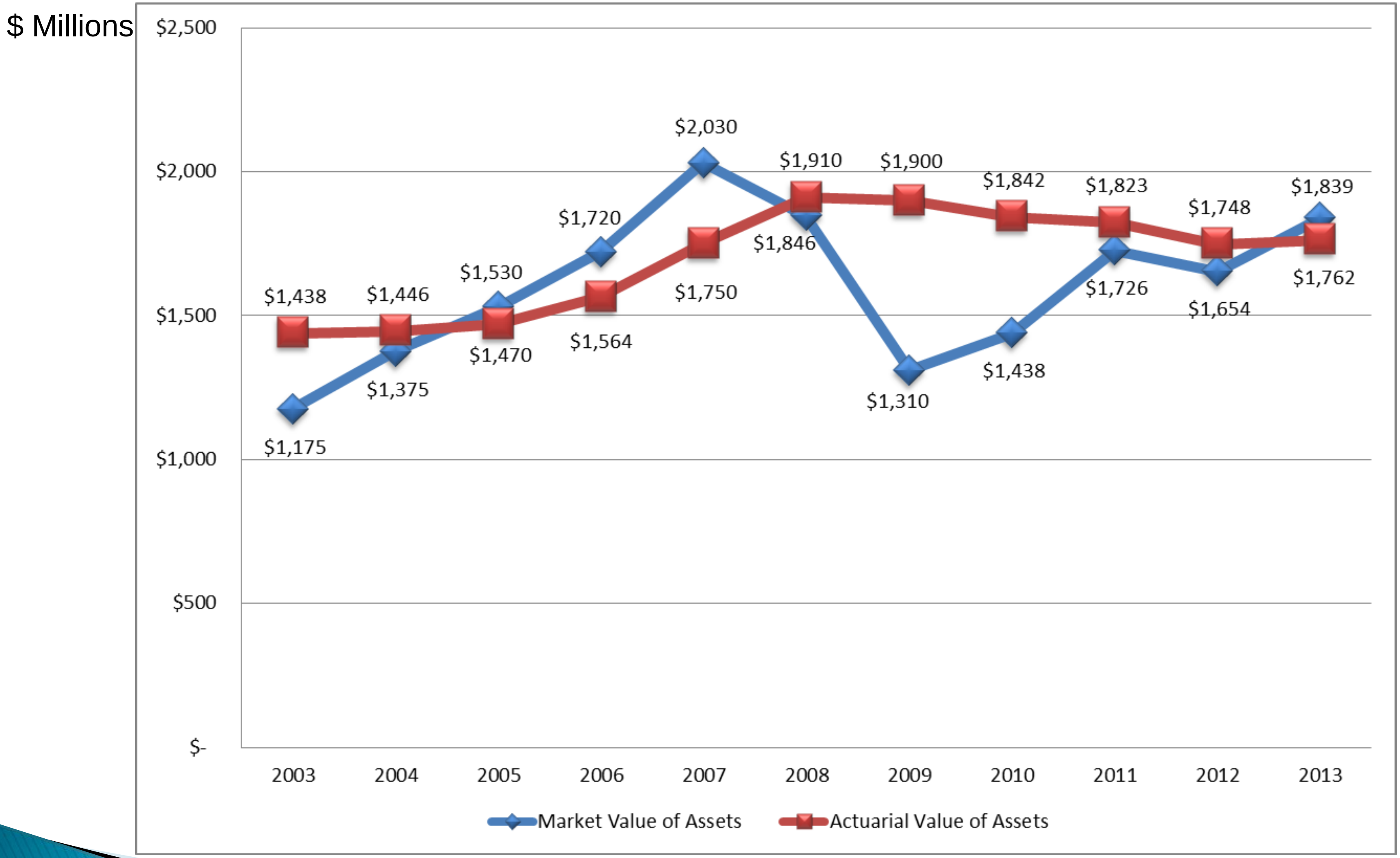
Summary of 2013 Valuation Highlights

- Valuation reflects increases in contribution rates (2011 leg)
  - Member rate will increase from 9.75% to 11.75% on July 1, 2014
  - Employer rate will increase from 10.75% to 12.75% on July 1, 2014
  - Increases will revert to 7.75% for both members and employers once the funded ratio reaches 100% (measured using the actuarial value of assets)
- Valuation reflects changes in member benefits (2011 leg)
- Market value of assets returned 13.4% for year ending 6/30/13 (Segal calculation)
- Net impact on funded ratio was a decrease from 61% (7/1/2012) to 59% (7/1/2013)
- Effective amortization period increased from 25 years (7/1/2012) to 28 years (7/1/2013)
- Net impact on ARC/ADC was an increase from 9.49% of payroll (FY13) to 10.26% of payroll (FY14)
- Based on the employer contribution rate for fiscal 2013 of 10.75%, there is a contribution sufficiency of 0.49% of payroll

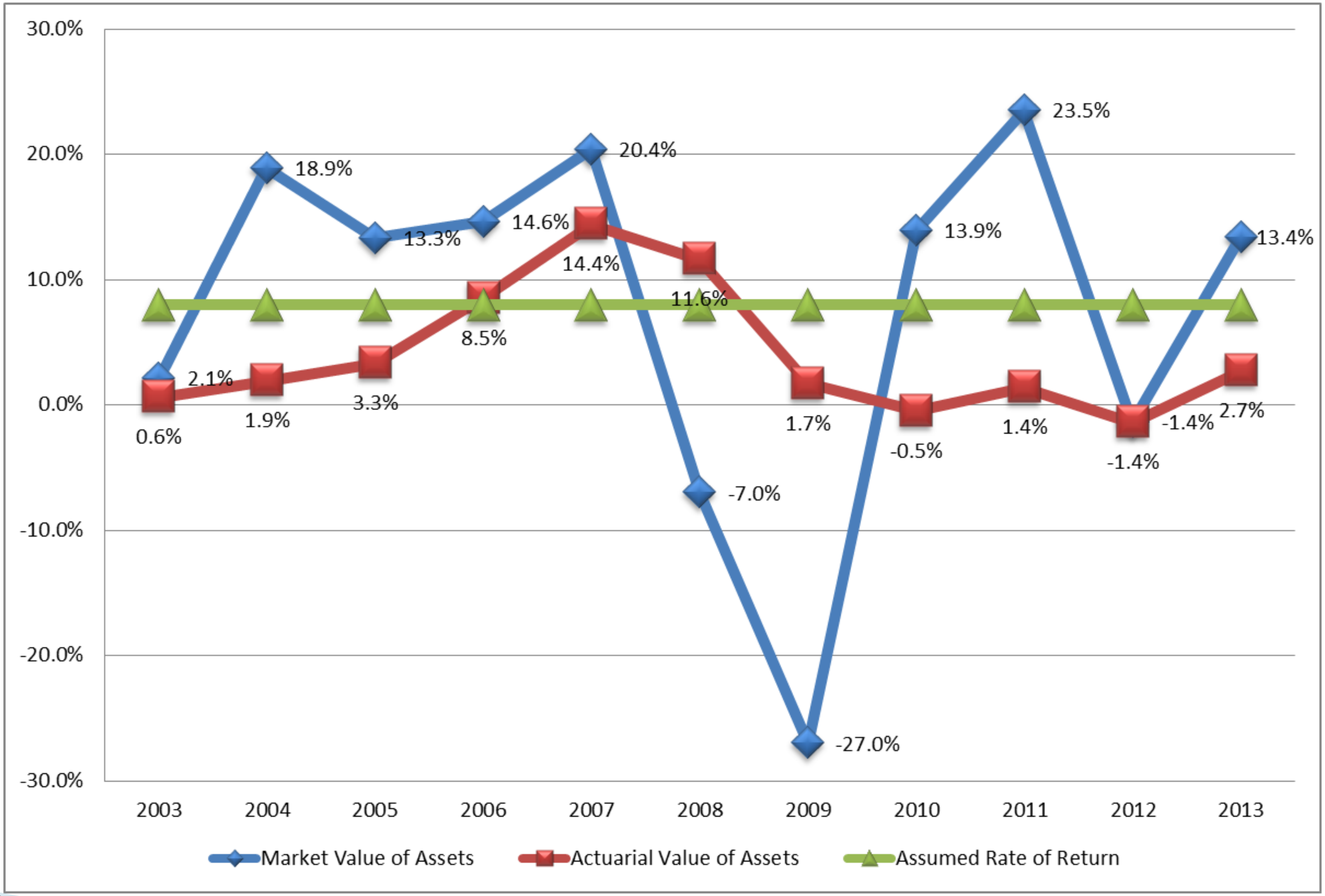
Membership

	2013	2012	Change
Active:			
• Number	10,138	10,014	+1.2%
• Payroll	$526.7 mil	$505.3 mil	+4.2%
• Average Age	43.2 years	43.7 years	- 0.5 years
• Average Service	13.2 years	13.7 years	- 0.5 years
Retirees and Beneficiaries			
• Number	7,489	7,151	+4.7%
• Total Annual Benefits	$154.8 mil	$142.8 mil	+8.4%
• Average Monthly Benefit	$1,722	$1,664	+3.5%

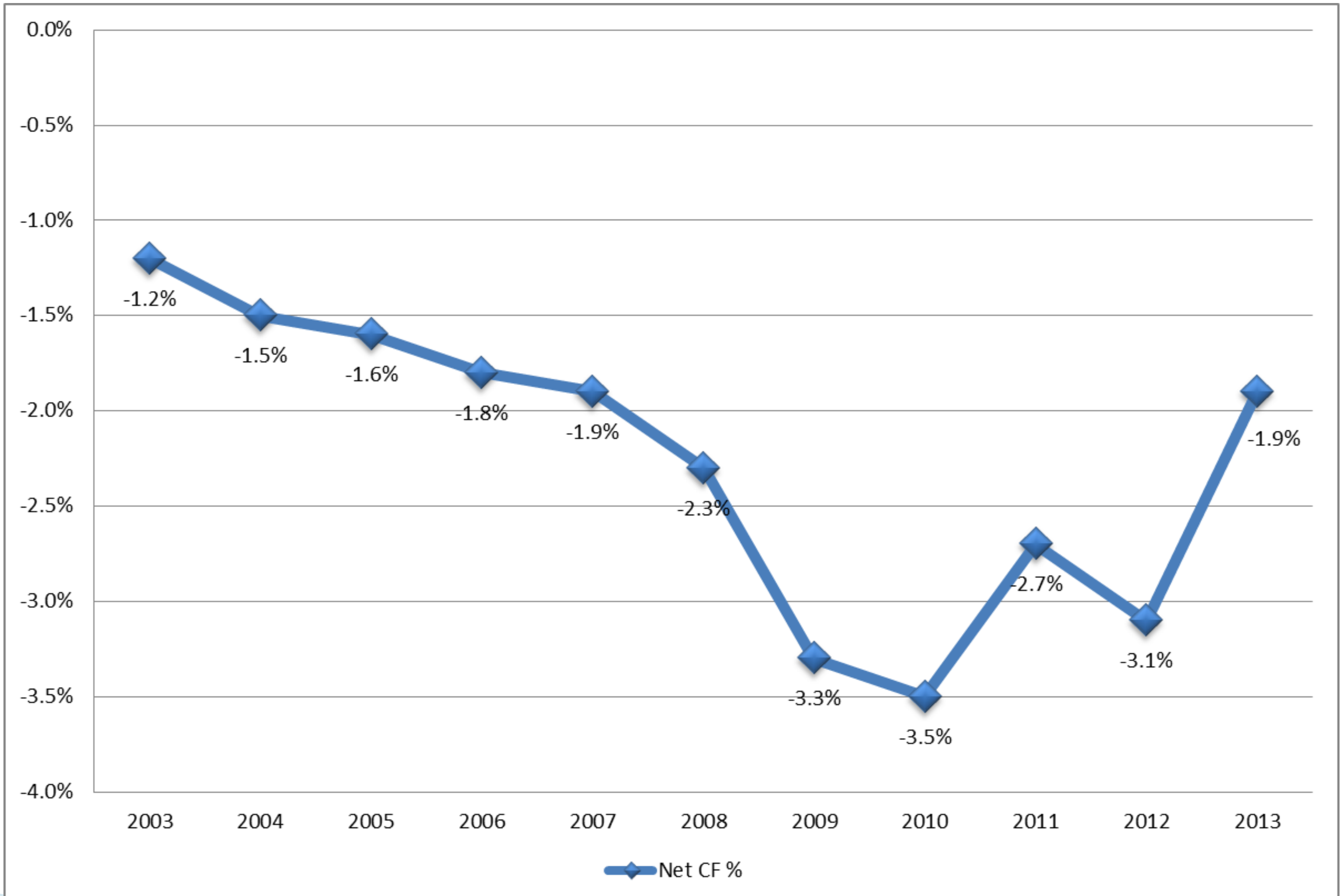
Market and Actuarial Values of Assets



Asset Returns



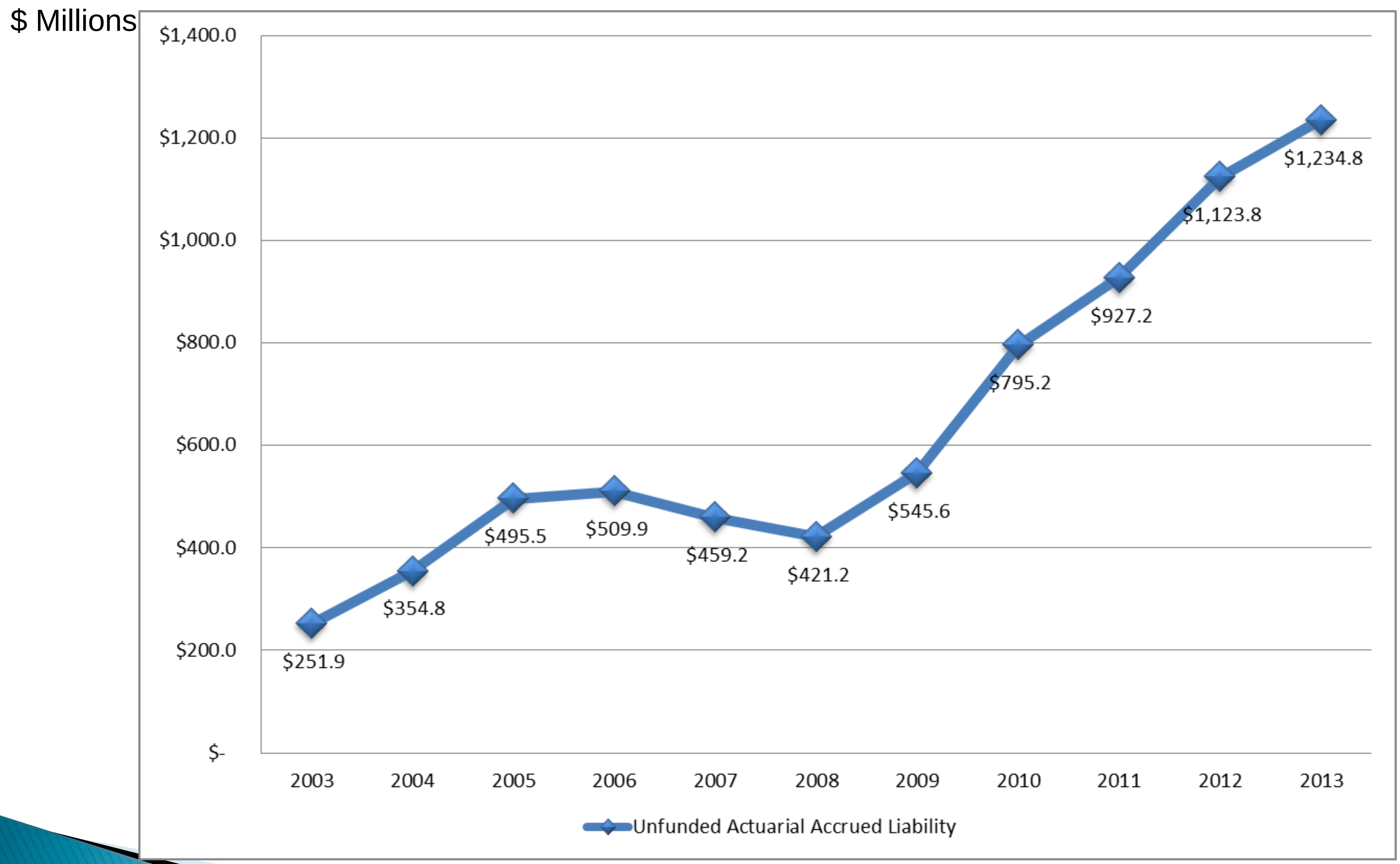
Net Cash Flow as a % of Market Value



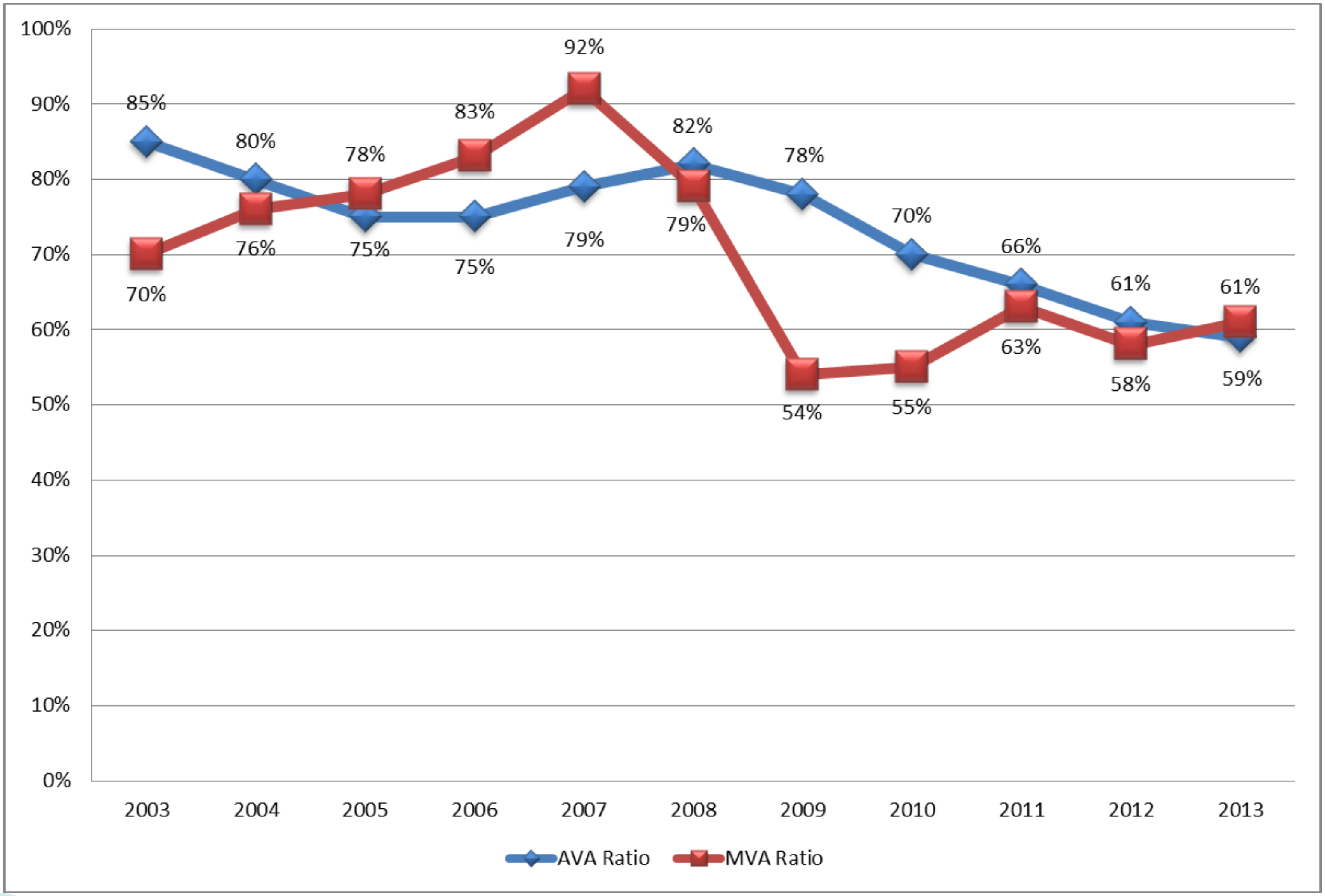
Valuation Results ($ in millions)

	July 1, 2013	July 1, 2012
Actuarial Accrued Liability:		
• Active Members	$1,371	$1,373
• Inactive Members	74	70
• Retirees and Beneficiaries	1,552	1,429
Total	**$2,997**	**$2,872**
Actuarial Assets	1,762	1,748
Unfunded Accrued Liability	$1,235	$1,124
Funded Ratio	58.8%	60.9%

Unfunded Actuarial Accrued Liability



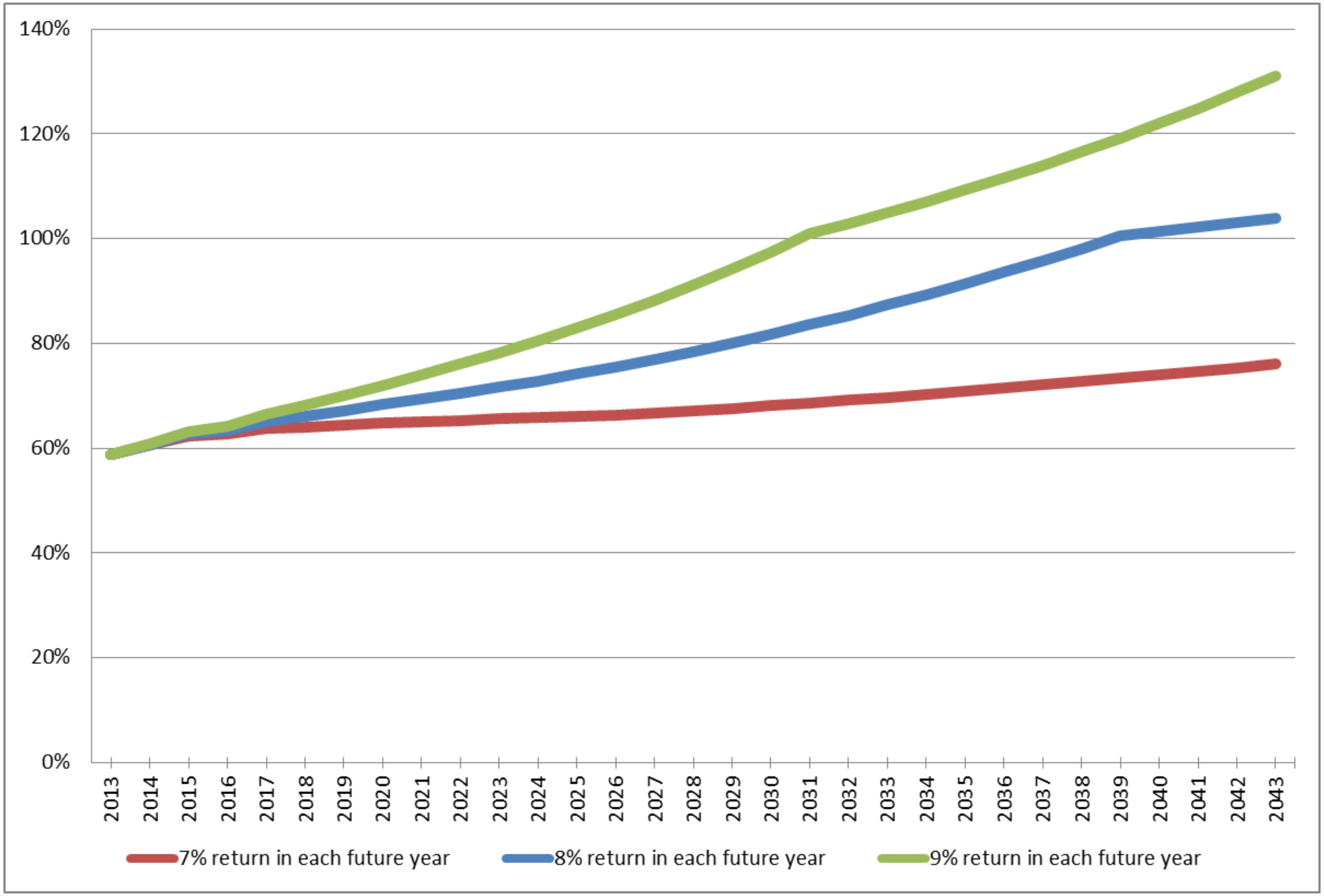
Funded Ratios



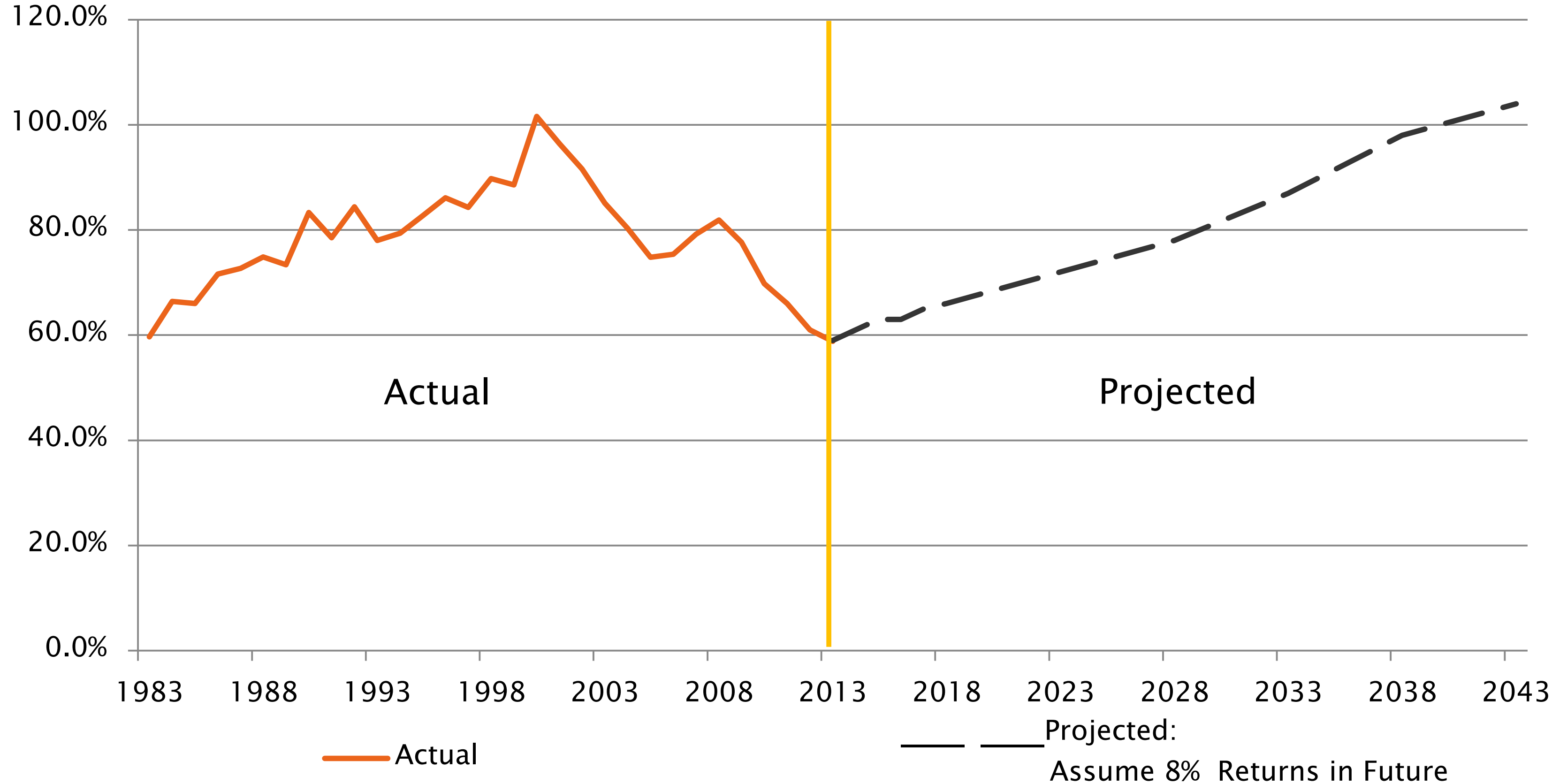
Projections

- Projections of estimated funded ratios for 30 years
  - Assumes Fund earns 8% per year in FY15 and each year thereafter
  - Additional projections assuming Fund earns 7% or 9% per year every year
  - All other experience is assumed to emerge as expected
- Includes contribution rate increases from HB 1134
  - Member rate is 9.75% for FY14 and increases to 11.75% for FY15 and thereafter
  - Employer rate is 10.75% for FY14 and increases to 12.75% for FY15 and thereafter
  - Increases "sunset" back to 7.75% once the funded ratio reaches 100% (based on actuarial assets)

Projected Funded Ratios (AVA Basis) Actual Returns +1% or -1% of Assumed



TFFR Funded Ratio: Actual and Projected



2015 – Plan Changes Needed?

- Long term funding projections are positive.

- Future investment returns:

	7%	8%	9%
10 yrs	66%	72%	78%
20 yrs	70%	87%	105%
30 yrs	76%	104%	131%

- Based on 2013 actuarial funding projections from Segal, no additional contribution or benefit changes are needed for funding purposes at this time.

- What could impact need for additional plan changes?
  - Future investment returns lower than expected.
  - Future actuarial experience (higher salaries, more retirements, improved mortality, etc.)
  - Future legislative actions.

- FUTURE UNKNOWN.
  - Closely monitor events/actions that could affect TFFR funding levels.

2015 – Administrative Changes?

- IRC compliance updates
  - Update federal references, language, and dates
- Plan design changes
  - Pension salary caps?
  - Retiree re-employment?
  - Other

Alternative Plan Designs

- DB/DC/Hybrid Plans

DB/DC/Hybrid plans

- **Recent History:**
  - 2009-10 Interim
    - LEBPC Study (Bill 2) – Close DB plan and require new teachers and state employees to join DC plan (TFFR and PERS) – No Committee recommendation
    - October 2010 TFFR Board – Actuary reviewed actuarial implications on DB plan.
    - 2011 Legislative Session (HB1258) – DC plan for New Hires – Bill failed
  - 2011-12 Interim
    - October 2011 TFFR Board – Education on DB/DC/Hybrid Plans from Actuary.
    - January 2012 Interim LEBPC Meeting – Education on DB/DC/Hybrid plans from Actuary (following slides are from Segal 2012 presentation)
    - LEBPC Study – No DC related bills filed for interim study, but reviewed HB1452 during 2013 session.
    - 2013 Legislative Session – HB 1452 – New state employees provided option to participate in PERS DC plan (2014-17 window) – Bill Passed
  - 2013-14 Interim
    - Legislative Government Finance Committee Study of DB/DC/Hybrid plans for state employees (PERS)
    - LEBPC – will study pension related legislative proposals filed by 4/1/14
    - 2015 Legislative Session?
- **Board discussion and directives**
  - Additional actuarial study or information?

Defined Benefit and Defined Contribution Plans

- Under a DB plan, the benefit is defined and the contribution is not
- Under a DC plan, the contribution is defined, but the benefit is not
- Types of plan risks:
  - Investment risk
  - Inflation risk
  - Contribution risk
  - Longevity risk
- In a DB plan, the employer usually bears these risks
  - In North Dakota, the employee bears a portion of these risks
- In a DC plan the employee bears these risks
- A hybrid plan is a combination of a DB and DC plan

Definition of Risks

- **Investment Risk**
  - Rate of return on assets
  - In DB plan, employer usually bears all the investment risk
  - In DC plan, employee bears all the investment risk
  - In North Dakota, contribution rates are fixed for both employer and employee
  - The employer and employee contribution rates are scheduled to increase for PERS and TFFR, so both employer and employee are sharing the investment risk
- **Inflation risk**
  - Cost of living before and after retirement
  - DB plans usually based on final average salary, so employee has limited cost of living risk
  - Most public sector DB plans provide some form of post-retirement benefit increase, so employee has some protection against inflation in retirement
  - PERS and TFFR is based on final average salary, so employee has limited cost of living risk prior to retirement
  - PERS and TFFR do not have post-retirement benefit increases, so employees bear the inflation risk after retirement

Definition of Risks *continued*

- **Contribution risk**
  - Level and volatility of annual contributions
  - In DB plan, employer usually bears this risk
  - In DC plan, contributions are a percentage of salary
    - If investment returns are poor, employees may need to make additional contributions
  - The employer and employee contribution rates are scheduled to increase for PERS and TFFR, so both employer and employee are sharing this risk
- **Longevity risk**
  - Outliving retirement assets
  - In DB plan, benefits paid as life annuity, so employer usually bears all risk
  - In DC plan, benefits based on account balance, so employee bears all risk
  - The employer and employee contribution rates are scheduled to increase for PERS and TFFR, so both employer and employee are sharing this risk

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.	Employee 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.

Hybrid Plans

- Hybrid – Combined plans have both defined benefit and defined contribution components.
  - Defined benefit is primary plan with defined contribution to enhance portability.
  - Defined contribution is primary plan with defined benefit as “safety net” plan
- Hybrid – Crossover plans
  - Members can choose among defined benefit, defined contribution, or combined plan at hire date
  - Members have the option to “crossover” from one plan to another with restrictions

Hybrid – Cash Balance Plan

- Defined benefit plan that looks like a defined contribution plan
- Hypothetical account balance credited with percentage of salary and interest each year.
- For example:
  - Annual credit to account balance of 5% of salary
  - Annual interest on account balance equal to 10-year treasury rate plus 1.5%
  - Benefits paid at retirement or termination based on value of hypothetical account balance
- Actual contributions based on annual valuation and expected to be less than annual credit plus interest

DB – DC – Hybrid Plan Considerations

- DB and DC plans have very different approaches to benefit design
  - DB plans focus on benefit security
  - DC plans focus on wealth accumulation
- Shifting of plan risks may have unintended consequences
- There is no magic equivalent plan (DB = DC)
  - Difference rests in risk and performance
- Whether retirement benefits are provided by a DB plan, DC plan, or a hybrid plan, contributions should be sufficient so that employees have a reasonable opportunity for a viable retirement plan

Transition Issues

Changing from a defined benefit to a defined contribution plan or a hybrid plan results in transition issues that must be addressed.

- Unfunded liabilities are not eliminated by a change to a DC plan or a hybrid plan
  - Best practices and accounting standards call for accelerated funding, driving up short-term costs
  - Longer term asset allocation changes may lead to reduced investment return and therefore to *higher total costs for the plan sponsor*.
- If DC plan investments are participant-directed, employee education is needed
- Creating a new DC Plan could add administrative complexity and cost
- Allowing choice between plans introduces anti-selection issues
- Adequate death and disability benefits cannot be provided by a DC plan
- Workforce management is difficult with a DC plan

2015 Legislation

- Additional actuarial study or information?

Other legislative issues

Board directives

MEMORANDUM

TO: **TFFR Board**

FROM: **Dave Hunter**

DATE: **January 24, 2014**

SUBJ: **SIB Update on RIO, TFFR Investment Returns and Future Actions**

During my first two months, I have enjoyed meeting with all of our RIO staff in one on one meetings in addition to many SIB Members and Clients including the Executive Director (or Director) of TFFR, PERS, WSI, HRMS, ITD, OMB, Risk Management and the Offices of the Attorney General and State Treasurer in addition to the Lt. Governor and Governor. I have been truly impressed with the outstanding talent and experience of each and every person I have met. I also appreciate the welcome reception I have been kindly granted by everyone and look forward to growing these relationships in the upcoming years.

I have focused my initial efforts on staff relations as I realize the success of our organization is heavily dependent on the effectiveness of our RIO team. In the upcoming months, I look forward to meeting with all of our investment managers, consultants and custodian to build upon the success already being generated by our fine team, while working to further enhance our investment risk management practices and documentation standards, expand upon Board education and refresh our Administrative and Governance manuals and processes. We will look to attain these goals while maintaining the highest level of ethics, integrity and character in all matters.

The RIO team will continue to focus on generating above benchmark returns over the long term, while striving to reduce management fees and other operating expenses. As such, it is my pleasure to report that our investment returns were in the **first quartile** of all public pension plans for the 12 months ended September 30, 2013, in addition to being in the top third during the last three years. For the 10-year period ended September 30, 2013, the **TFFR** investment returns were in the **28th percentile** of the Callan Associates Public Fund Sponsor Database, which is more than respectable when considering the challenges faced during the Great Recessionary period. In order to build upon this success, the RIO investment team is rank ordering our investment managers in terms of assets and fees in order to prioritize our efforts. We will then embark on a relationship review with our major service providers to ensure we are adhering to risk and return expectations while seeking further fee reductions. During the past two months, I am also pleased to report that RIO was successful in completing the Global Equity transition which will generate an estimated **$750,000** in annual fee savings while identifying another opportunity to realize approximately **$300,000** in future annual fee reductions.

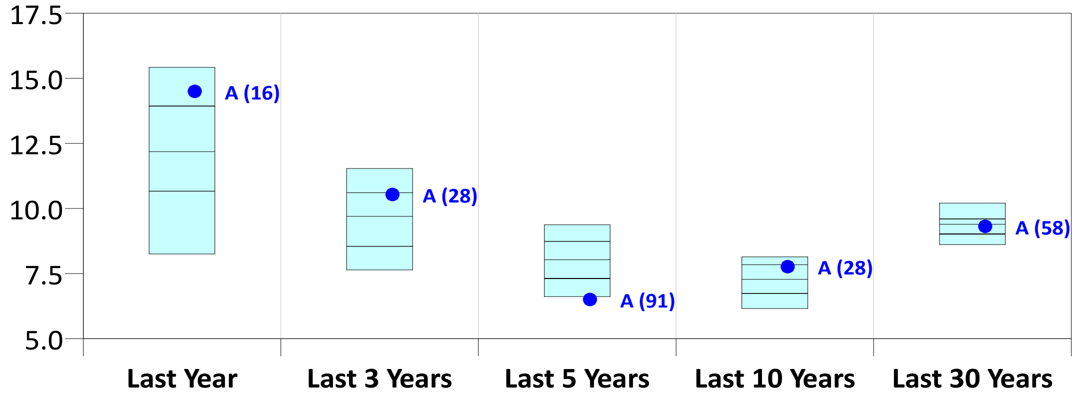
I am honored and humbled to be the new Executive Director / CIO of RIO and thank everyone who has allowed me to assume this important role. Going forward, I invite each Board Member to reach out to me at anytime to expand our relationship.

TFFR Asset Allocation as of 9/30/13

	Market Value	Allocation Actual	Allocation Policy	Δ
TOTAL FUND	**1,880,504,455**	**100.0%**	**100.0%**	**0.0%**
GLOBAL EQUITIES	**1,126,263,450**	**59.9%**	**57.0%**	**2.9%**
Global Equities	320,977,963	17.1%	16.0%	1.1%
Large Cap Domestic	322,232,629	17.1%	16.6%	0.5%
Small Cap Domestic	103,016,498	5.5%	4.8%	0.6%
Developed International	234,565,174	12.5%	11.8%	0.7%
Emerging Markets	53,015,342	2.8%	2.8%	0.0%
Private Equity	92,455,844	4.9%	5.0%	-0.1%
GLOBAL FIXED INCOME	**405,691,264**	**21.6%**	**22.0%**	**-0.4%**
Investment Grade Fixed Income	228,508,921	12.2%	12.0%	0.2%
Below Investment Grade Fixed Income	89,938,261	4.8%	5.0%	-0.2%
International Fixed Income	87,244,082	4.6%	5.0%	-0.4%
GLOBAL REAL ASSETS	**337,245,747**	**17.9%**	**20.0%**	**-2.1%**
Real Estate	176,252,225	9.4%	10.0%	-0.6%
Timber	89,369,584	4.8%	5.0%	-0.2%
Infrastructure	71,623,938	3.8%	5.0%	-1.2%
Total Cash Equivalents	**11,303,994**	**0.6%**	**1.0%**	**-0.4%**

Public Fund Peer Comparison

Returns
for Periods Ended September 30, 2013
Group: CAI Public Fund Sponsor Database



	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 30 Years
10th Percentile	15.43	11.54	9.37	8.14	10.21
25th Percentile	13.93	10.61	8.74	7.84	9.61
Median	12.19	9.70	8.03	7.28	9.40
75th Percentile	10.67	8.55	7.31	6.75	9.02
90th Percentile	8.26	7.64	6.62	6.16	8.62
Member Count	243	226	211	176	25
Total Fund TFFR Gross ● A	14.50	10.54	6.51	7.77	9.32

Source: Callan

ND STATE INVESTMENT BOARD MEETING

Friday, January 24, 2014, 8:30 a.m.
Peace Garden Room, State Capitol
600 E Blvd, Bismarck, ND

AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

II. ACCEPTANCE OF MINUTES (November 22, 2013)

III. INVESTMENTS

A. Public Pension Peer Performance Summary - Mr. Hunter (enclosed) (5 min)
B. Investment Manager Rankings (Assets Under Management / Recommendation) - Mr. Hunter (to follow) (5 min)
C. Global Equity Transition - Mr. Schulz (enclosed) (5 min)
D. Westridge/WG Trading - Ms. Murtha (5 min)
Possible Executive Session for Attorney Consultation
N.D.C.C. §44-04-19.1(5) and N.D.C.C. §44-04-19.2

IV. GOVERNANCE

A. Administration - Audit Committee Liaison Report - Mr. Gessner (enclosed) (5 min)
B. Legislative Update - Audited Financial Statements for fiscal years ended June 30, 2012 and 2013 - Mr. Hunter (5 min)
C. Organizational Chart Update - Mr. Hunter (enclosed) (5 min)
D. Interim Compensation Update for Fiscal - Mr. Hunter (5 min)

V. QUARTERLY MONITORING (enclosed) (5 min)

A. Budget and Financial Conditions - Ms. Walcker / Ms. Flanagan
B. Executive Limitations/Staff Relations - Mr. Hunter
C. Investment Program - Mr. Schulz
D. Retirement Program - Ms. Kopp
E. RIO June 30, 2013 Financial Audit Report - Ms. Walcker / Ms. Flanagan (enclosed under Item IV.A.)

VI. OTHER

Next Meetings:
SIB meeting - February 28, 2014, 8:30 a.m. - Peace Garden Room
SIB Audit Committee meeting - February 28, 2014, 1:00 p.m. - Peace Garden Room

VII. ADJOURNMENT

Any individual requiring an auxiliary aid or service, please contact the Retirement and Investment Office
(701) 328-9885 at least three (3) days prior to the scheduled meeting.

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 25, 2013, BOARD MEETING

BOARD MEMBERS PRESENT:	Drew Wrigley, Lt. Governor, Chair Mike Sandal, Vice Chair Clarence Corneil, TFFR Board Jeff Engleson, Deputy Land Commissioner Mike Gessner, TFFR Board Adam Hamm, Insurance Commissioner (teleconference) Rob Lech, TFFR Board Howard Sage, PERS Board Kelly Schmidt, State Treasurer Cindy Ternes, Workforce Safety & Insurance Tom Trenbeath, PERS Board
STAFF PRESENT:	Bonnie Heit, Assistant to the SIB Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO Susan Walcker, Investment Accountant
OTHERS PRESENT:	Greg Casey, Declaration Pete Farley, Declaration Bond Griffin, Declaration David Hunter, ED/CIO Candidate Michael Kennedy, Korn/Ferry (teleconference) Bruce Klootwyk, Raymond James Karen Huang, Korn/Ferry (teleconference) Jan Murtha, Attorney General's Office John Pluta, Declaration

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:00 a.m. on Friday, October 25, 2013, at Workforce Safety & Insurance, 1600 E Century Ave., Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE OCTOBER 25, 2013, MEETING.

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

MINUTES:

The minutes were considered from the September 27, 2013, October 1, 2013, October 8, 2013, and October 9, 2013, meetings,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE SEPTEMBER 27, 2013, MINUTES AS WRITTEN.

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

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE OCTOBER 1, 2013, MINUTES AS WRITTEN.

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

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE OCTOBER 8, 2013, MINUTES AS WRITTEN.

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

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE OCTOBER 9, 2013, MINUTES AS WRITTEN.

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

INVESTMENTS:

Declaration – Representatives reviewed the firm’s current SIB mandates; Distressed Debt Fund, Short Tenor Commercial Mortgage Backed Securities Fund, Insurance Trust Separate Account, and Total Return Bond Fund.

The SIB recessed at 9:20 am and reconvened at 9:28 am

Mr. Schulz reviewed his recommendation to transition the Insurance Trust Separate Account to Declaration’s Total Return Bond Fund. The Total Return Bond Fund allows more implementation flexibility as far as the overall portfolio duration.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. ENGLESON AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND TRANSITION THE EXISTING INSURANCE TRUST SEPARATE ACCOUNT TO DECLARATION’S TOTAL RETURN BOND FUND.

AYES: MR. TRENBEATH, TREASURER SCHMIDT, MR. CORNEIL, MR. ENGLESON, MR. LECH, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MS. TERNES, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

Global Equity Portfolio – Mr. Schulz reviewed the first phase of restructuring the global public equity portfolio within the Pension Trust. Mr. Schulz recommended reducing the number of non-US manager mandates which would lower management fees, reduce tracking error and complexity, and realize investment and administrative efficiencies.

Mr. Schulz's recommendations are as follows:

Transition State Street Global Advisers International Alpha and Clifton EAFE Index mandates to a Pure Passive MSCI World ex-US mandate.

Transition the UBS Emerging Market Equity and PanAgora Diversified Risk Emerging Markets Equity Plus mandates to passive mandates in advance of the completion of a new mandate search.

Transition the assets currently managed by Calamos to the existing Epoch Global Choice mandate due to poor performance and organizational changes at Calamos.

The SIB congratulated Mr. Schulz for all of his due diligence, research, and excellent work on the first phase of a well thought out restructuring proposal of the portfolio.

After discussion,

IT WAS MOVED BY MR. SAGE AND SECONDED BY TREASURER SCHMIDT AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF'S RECOMMENDATIONS ON THE FIRST PHASE OF RESTRUCTURING THE GLOBAL PUBLIC EQUITY PORTFOLIO WITHIN THE PENSION TRUST.

AYES: MS. TERNES, MR. CORNEIL, COMMISSIONER HAMM, MR. SANDAL, TREASURER SCHMIDT, MR. ENGLESON, MR. GESSNER, MR. TRENBEATH, MR. LECH, MR. SAGE, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

The SIB recessed at 10:15 am and reconvened at 10:30 am

GOVERNANCE:

Audit Committee Report – Mr. Gessner updated the SIB on the Audit Committee's activities for fiscal year July 1, 2012 – June 30, 2013. Forty-five TFFR school district audits were completed with four follow up reviews of not-in-compliance audits. The TFFR Benefits Payment, File Maintenance, and SIB Executive Limitations audits were also completed.

The Audit Committee received results of the financial audit of RIO for fiscal year ended June 30, 2012, from independent auditors, CliftonLarsonAllen. An unqualified opinion was issued on RIO's financial statements.

Ms. Kopp also informed the SIB, CliftonLarsonAllen has submitted a draft audit report of RIO's financial audit for fiscal year ended June 30, 2013, to the State Auditor's Office. There were no exceptions, recommendations, or findings. CliftonLarsonAllen will review the results of the report with the Audit Committee at their November 22, 2013, regular meeting.

Ms. Kopp also noted TFFR is celebrating its 100 year centennial, 1913 – 2013. The TFFR Board at their October 24, 2013, meeting recognized TFFR for its many years of service to ND educators.

Ms. Kopp also mentioned this year the SIB is 50 years old. The SIB was created by the 1963 Legislative Assembly.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. CORNEIL AND CARRIED ON A VOICE VOTE TO ACCEPT THE ANNUAL AUDIT COMMITTEE ACTIVITIES REPORT.

AYES: MR. GESSNER, MR. ENGLESON, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, MR. LECH, COMMISSIONER HAMM, MR. CORNEIL, MR. TRENBEATH, MR. SANDAL, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

EXECUTIVE DIRECTOR/CHIEF INVESTMENT OFFICER CANDIDATE INTERVIEW:

Mr. Kennedy reviewed with the SIB the subject matter Mr. David Hunter has been preparing to present to the SIB.

The SIB began their interview of Mr. Hunter at 10:30 am.

Mr. Hunter presented his recommendations for structuring a fixed income asset class for an income oriented investor and also examples of leadership successes that he has had with current and past employers.

The SIB followed up with questions and the interview concluded at 12:00 pm.

Ms. Karen Huang, Korn/Ferry, joined the meeting by teleconference and reviewed the results and also shared her insights of an on-line self assessment Mr. Hunter had completed on behalf of Korn/Ferry. The assessment was completed to identify Mr. Hunter’s individual strengths and potential areas for development. After Ms. Huang’s summary of the assessment, the SIB discussed Mr. Hunter’s background, qualifications, and overall impressions.

Mr. Kennedy also shared with the SIB information Korn/Ferry had obtained from additional reference checks completed on Mr. Hunter and all were favorable.

After discussion,

IT WAS MOVED BY MR. SAGE AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO OFFER MR. DAVID HUNTER THE POSITION OF ED/CIO OF THE RETIREMENT AND INVESTMENT OFFICE.

AYES: MR. SANDAL, TREASURER SCHMIDT, MS. TERNES, MR. LECH, MR. CORNEIL, MR. TRENBEATH, MR. ENGLESON, MR. GESSNER, COMMISSIONER HAMM, MR. SAGE, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

MR. SANDAL MOVED AND MR. LECH SECONDED TO OFFER THE SAME COMPENSATION PACKAGE AS WAS PREVIOUSLY OFFERED: AN ANNUAL SALARY OF $210,000, RELOCATION EXPENSES UP TO $8,000 (VERIFIABLE BY RECEIPTS), 20 DAYS OF VACATION, AND OTHER STANDARD STATE BENEFITS. THE OFFER IS CONTINGENT UPON ADDITIONAL REFERENCE CHECKS BY KORN/FERRY AND A BACKGROUND CHECK BY THE STATE OF ND.

AYES: MR. TRENBEATH, MR. SAGE, MR. GESSNER, MR. ENGLESON, MS. TERNES, COMMISSIONER HAMM, MR. SANDAL, MR. LECH, MR. CORNEIL, TREASURER SCHMIDT, AND LT. GOVERNOR WRIGLEY

NAYS: NONE
MOTION CARRIED

Mr. Kennedy will contact Mr. Hunter on the offer as soon as possible. The SIB requested a response from Mr. Hunter on the offer by 5:00 pm, Tuesday, October 29, 2013.

Commissioner Hamm and Mr. Kennedy were disconnected from the teleconference call at 1:00 pm. Ms. Heit had scheduled the call from 8:00 am - 1:00 pm.

Staff will contact Mr. Kennedy to coordinate a background check with Mr. Hunter prior to him departing Bismarck.

OTHER:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SAGE AND CARRIED ON A VOICE VOTE TO ACCEPT THE SEPTEMBER 30, 2013, QUARTERLY MONITORING REPORTS.

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

The next SIB meeting is scheduled for November 22, 2013, at 8:30 am at the Peace Garden Room, State Capitol, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for November 22, 2013, at 1:00 pm at the Peace Garden Room, State Capitol, Bismarck, ND.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 1:04 p.m.

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Lt. Governor Wrigley, Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 28, 2013, BOARD MEETING

BOARD MEMBERS PRESENT:	Drew Wrigley, Lt. Governor, Chair Mike Sandal, Vice Chair Clarence Corneil, TFFR Board Commissioner Gaebe, Land Commissioner Mike Gessner, TFFR Board Rob Lech, TFFR Board Howard Sage, PERS Board Kelly Schmidt, State Treasurer Cindy Ternes, Workforce Safety & Insurance Tom Trenbeath, PERS Board
ABSENT:	Adam Hamm, Insurance Commissioner
STAFF PRESENT:	Bonnie Heit, Assistant to the SIB Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO
OTHERS:	Bryan Klipfel, Workforce Safety & Insurance

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 3:07 pm on Monday, October 28, 2013. The meeting was conducted by teleconference.

A quorum was present for the purpose of conducting business.

Commissioner Hamm was unavailable due to a NAIC conference call at 3:00 pm.

The meeting was called to review the relocation expenses for the final candidate for the position of ED/CIO of the Retirement and Investment Office.

Mr. Michael Kennedy, Korn/Ferry, notified Ms. Kopp and Mr. Sandal on Sunday, October 27, 2013, that he had notified Mr. David Hunter on Friday, October 25, 2013, that the SIB had offered him the position of ED/CIO of RIO.

Mr. Kennedy also followed up with another call to Mr. Hunter on Sunday, October 27, 2013, to discuss the offer and benefit package. Mr. Kennedy stated Mr. Hunter was inquiring about the relocation expense amount, and was inquiring if there was any flexibility in the relocation amount or the base salary that would allow him to better manage his move.

The SIB discussed their options at this point of the recruitment process. After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. TRENBEATH AND CARRIED ON A ROLL CALL VOTE TO SUPPORT THE OFFER THAT WAS AGREED UPON BY THE SIB AT THEIR OCTOBER 25, 2013, MEETING WHICH WAS TO OFFER AN ANNUAL SALARY OF $210,000, RELOCATION EXPENSES UP TO $8,000 (VERIFIABLE BY RECEIPTS), 24 DAYS OF VACATION, AND OTHER STANDARD STATE BENEFITS.

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

For clarification purposes, the motion from the October 25, 2013, meeting stated 20 days of vacation. The SIB corrected the motion to state 24 vacation days per year or 16 hours per month which is the maximum allowed under state guidelines.

The offer letter to Mr. Hunter will be sent out on Tuesday, October 29, 2013. The timeframe to respond to the offer will be extended to the close of business on Thursday, October 31, 2013.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 3:22 p.m.

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
NOVEMBER 22, 2013, BOARD MEETING

BOARD MEMBERS PRESENT:	Drew Wrigley, Lt. Governor, Chair Mike Sandal, Vice Chair Lance Gaebe, Land Commissioner Mike Gessner, TFFR Board Adam Hamm, Insurance Commissioner (teleconference) Rob Lech, TFFR Board Howard Sage, PERS Board Kelly Schmidt, State Treasurer Cindy Ternes, Workforce Safety & Insurance Tom Trenbeath, PERS Board
BOARD MEMBER ABSENT:	Clarence Corneil, TFFR Board
STAFF PRESENT:	Bonnie Heit, Assistant to the SIB Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO Susan Walcker, Investment Accountant
OTHERS PRESENT:	Weldee Baetsch, former SIB trustee Paul Michaels, Invesco Jan Murtha, Attorney General's Office Max Swango, Invesco

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, November 22, 2013, at the State Capitol, Peace Garden Room, 600 E Boulevard, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY LT. GOVERNOR WRIGLEY AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE NOVEMBER 22, 2013, MEETING.

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

MINUTES:

The minutes were considered from the October 25, 2013, and October 28, 2013, meetings.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SAGE AND CARRIED ON A VOICE VOTE TO ACCEPT THE OCTOBER 25, 2013, AND OCTOBER 28, 2013, MINUTES AS WRITTEN.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, MR. LECH, COMMISSIONER HAMM, MR. TRENBEATH, MR. SANDAL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE
MOTION CARRIED
ABSENT: MR. CORNEIL

INVESTMENTS:

Invesco – Representatives reviewed the investment performance of the Funds currently managed by the firm within the SIB's Global Real Estate allocation in the Pension Trust; Core Commingled, Fund II, Fund III, and Asian LP.

Invesco representatives also reviewed additional investment opportunities for the SIB's consideration; Value Added Fund IV and Asia Real Estate Fund III.

Staff recommended the SIB make the following additional capital commitments with Invesco; $70 million to the Value Added Fund IV and $35 million to the Asia Real Estate Fund III.

After discussion,

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. SAGE AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND INVEST $70 MILLION IN THE INVESCO VALUE ADDED FUND IV AND $35 MILLION TO THE ASIA REAL ESTATE FUND III.

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

QUARTERLY MONITORING:

Callan Investment Measurement for the Pension Trust and Insurance Trust – Mr. Schulz reviewed the Callan performance measurement reports for the Pension Trust and the Insurance Trust for the quarter ending September 30, 2013.

Mr. Schulz informed the SIB an offer has been made and accepted for RIO's Compliance Officer position and a start date of December 9, 2013, has been mutually agreed upon by both parties.

GOVERNANCE:

Legislative Update – Mr. Schulz informed the SIB he provided an update on the asset allocation, fund earnings to date, and estimated future fund earnings of the Legacy Fund to the Legacy and Budget Stabilization Fund Advisory Board on November 5, 2013, and the Government Finance Committee on November 7, 2013.

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

Interim Compensation – The SIB had issued temporary salary adjustments since June 1, 2012, to the Deputy Chief Investment Officer and Deputy Executive Director/Chief Retirement Officer effective until the SIB had reached a decision on the Executive Director/CIO vacancy for RIO. As a result of the Executive Director/CIO appointment effective December 2, 2013, Mr. Sandal requested clarification from the SIB on the timeframe of the temporary salary adjustments for the two positions. After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. TRENBEATH AND CARRIED ON A ROLL CALL VOTE TO EXTEND THE TEMPORARY SALARY ADJUSTMENTS FOR THE DEPUTY CHIEF INVESTMENT OFFICER AND DEPUTY EXECUTIVE DIRECTOR/CHIEF RETIREMENT OFFICER THROUGH DECEMBER 31, 2013.

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

OTHER:

The next SIB meeting is scheduled for January 24, 2014, at 8:30 am at the Peace Garden Room, State Capitol, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for November 22, 2013, at 1:00 pm at the Peace Garden Room, State Capitol, Bismarck, ND.

ADJOURNMENT:

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 11:00 a.m.

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Lt. Governor Wrigley, Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF OCTOBER 31, 2013

	October-13					September-13					Current Fiscal YTD		Prior FY13		3 Years Ended 6/30/2013		5 Years Ended 6/30/2013	
		Allocation		Month			Allocation		Quarter									
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Gross (7)	Net	Gross (7)	Net	Gross	Net	Gross	Net
TOTAL FUND	**1,923,585,351**	**100.0%**	**100.0%**	**2.55%**	**2.52%**	**1,880,504,455**	**100.0%**	**100.0%**	**5.01%**	**4.94%**	**7.68%**	**7.58%**	**13.97%**	**13.63%**	**12.18%**	**11.81%**	**3.42%**	**2.92%**
POLICY TARGET BENCHMARK				*1.29%*	*1.29%*				*4.94%*	*4.94%*	*6.29%*	*6.29%*	*11.95%*	*11.95%*	*10.80%*	*10.80%*	*4.60%*	*4.60%*
ATTRIBUTION ANALYSIS																		
Asset Allocation				**0.05%**	**0.05%**				**0.05%**	**0.05%**	**-1.30%**	**-1.30%**	**0.06%**	**0.06%**	**0.03%**	**0.03%**		
Manager Selection				**1.20%**	**1.18%**				**0.01%**	**-0.06%**	**2.69%**	**2.59%**	**1.97%**	**1.62%**	**1.36%**	**0.98%**		
TOTAL RELATIVE RETURN				1.26%	1.23%				0.07%	0.00%	1.39%	1.29%	2.03%	1.68%	1.38%	1.01%		
GLOBAL EQUITIES	***1,155,810,013***	***60.1%***	***57.0%***	***3.78%***	***3.75%***	***1,126,263,450***	***59.9%***	***57.0%***	***7.71%***	***7.64%***	***7.71%***	***7.64%***	***19.30%***	***18.93%***				
Benchmark				***2.00%***	***2.00%***				***7.50%***	***7.50%***	***7.50%***	***7.50%***	***18.07%***	***18.07%***				
Epoch (1)	99,230,244	5.2%	4.5%	3.55%	3.54%	96,886,043	5.2%	4.5%	8.32%	8.15%	12.16%	11.93%	20.85%	20.10%	11.82%	11.41%	6.38%	5.23%
Calamos	25,768,648	1.3%	1.5%	2.37%	2.36%	25,492,602	1.4%	1.5%	6.28%	6.11%	8.80%	8.56%	8.37%	7.65%	N/A	N/A	N/A	N/A
LSV	193,652,792	10.1%	10.0%	4.71%	4.70%	198,599,316	10.6%	10.0%			13.83%	13.59%	N/A	N/A	N/A	N/A	N/A	N/A
Total Global Equities	**318,651,685**	**16.6%**	**16.0%**	**4.17%**	**4.16%**	**320,977,962**	**17.1%**	**16.0%**	**8.40%**	**8.22%**	**12.92%**	**12.68%**	**17.06%**	**16.32%**				
MSCI World (2)					***3.91%***				***8.18%***	***8.18%***	***12.41%***	***12.41%***	***18.58%***	***18.58%***				
Domestic - broad	***443,141,848***	***23.0%***	***21.5%***	***4.20%***	***4.18%***	***425,249,128***	***22.6%***	***21.5%***	***6.96%***	***6.89%***	***6.96%***	***6.89%***	***24.02%***	***23.70%***				
Benchmark				***3.41%***	***3.41%***				***6.96%***	***6.96%***	***6.96%***	***6.96%***	***21.93%***	***21.93%***				
Large Cap Domestic																		
LA Capital	134,461,122	7.0%	5.0%	4.51%	4.50%	128,702,297	6.8%	5.0%	6.66%	6.61%	11.47%	11.40%	18.86%	18.65%	19.03%	18.82%	7.30%	7.08%
Russell 1000 Growth				***4.42%***	***4.42%***				***8.11%***	***8.11%***	***12.89%***	***12.89%***	***17.07%***	***17.07%***	***18.68%***	***18.68%***	***7.47%***	***7.47%***
LA Capital	91,807,682	4.8%	2.8%	4.47%	4.46%	87,843,476	4.7%	2.9%	5.41%	5.37%	10.12%	10.07%	21.63%	21.44%	19.08%	18.81%	7.66%	7.39%
Russell 1000				***4.40%***	***4.40%***				***6.02%***	***6.02%***	***10.68%***	***10.68%***	***21.24%***	***21.24%***	***18.63%***	***18.63%***	***7.12%***	***7.12%***
Northern Trust	46,090,341	2.4%	2.4%	5.28%	5.26%	43,778,727	2.3%	2.3%	4.97%	4.90%	10.51%	10.41%	23.67%	23.35%	19.75%	19.49%	8.15%	7.95%
Clifton	64,798,476	3.4%	6.4%	4.62%	4.62%	61,908,128	3.3%	6.4%	4.99%	4.99%	9.84%	9.84%	20.44%	20.43%	N/A	N/A	N/A	N/A
S&P 500					***4.60%***				***5.24%***	***5.24%***	***10.09%***	***10.09%***	***20.60%***	***20.60%***	***18.45%***	***18.45%***	***7.01%***	***7.01%***
Total Large Cap Domestic	**337,157,620**	**17.5%**	**16.6%**	**4.62%**	**4.61%**	**322,232,629**	**17.1%**	**16.6%**	**5.76%**	**5.72%**	**10.65%**	**10.60%**	**23.13%**	**22.92%**	**18.57%**	**18.23%**	**3.73%**	**3.29%**
Russell 1000 (2)				***4.40%***	***4.40%***				***6.02%***	***6.02%***	***10.68%***	***10.68%***	***21.24%***	***21.24%***	***18.62%***	***18.62%***	***7.10%***	***7.10%***
Small Cap Domestic																		
SEI	93,541	0.0%	0.0%	0.17%	0.17%	93,382	0.0%	0.0%	-5.02%	-5.02%	-4.86%	-4.86%	386.46%	386.46%	46.90%	46.90%	19.57%	19.06%
Callan	59,175,695	3.1%	2.4%	3.11%	3.06%	57,393,212	3.1%	2.4%	11.32%	11.17%	14.78%	14.58%	27.71%	27.01%	20.26%	19.54%	9.71%	9.16%
Clifton	46,714,992	2.4%	2.4%	2.57%	2.53%	45,529,904	2.4%	2.4%	10.37%	10.24%	13.21%	13.03%	25.30%	24.72%	20.17%	19.68%	N/A	N/A
Total Small Cap Domestic	**105,984,228**	**5.5%**	**4.8%**	**2.87%**	**2.83%**	**103,016,498**	**5.5%**	**4.8%**	**10.88%**	**10.74%**	**14.06%**	**13.87%**	**26.86%**	**26.22%**	**20.05%**	**19.46%**	**10.27%**	**9.59%**
Russell 2000					***2.51%***				***10.21%***	***10.21%***	***12.98%***	***12.98%***	***24.21%***	***24.21%***	***18.67%***	***18.67%***	***8.77%***	***8.77%***
International - broad	***298,679,330***	***15.5%***	***14.5%***	***3.84%***	***3.79%***	***287,580,516***	***15.3%***	***14.5%***	***11.20%***	***11.04%***	***11.20%***	***11.04%***	***17.71%***	***16.98%***				
Benchmark				***2.72%***	***2.72%***				***10.45%***	***10.45%***	***10.45%***	***10.45%***	***15.51%***	***15.51%***				
Developed International																		
State Street	26,518,716	1.4%	1.3%	4.27%	4.26%	25,439,001	1.4%	1.3%	12.16%	12.13%	16.95%	16.91%	23.17%	22.63%	10.23%	9.54%	-1.10%	-1.80%
MSCI EAFE (3)					***3.36%***				***11.56%***	***11.56%***	***15.31%***	***15.31%***	***18.62%***	***18.62%***	***10.04%***	***10.04%***	***-0.63%***	***-0.63%***
Capital Group	35,814,433	1.9%	2.3%	2.86%	2.83%	34,822,099	1.9%	2.4%	11.78%	11.68%	14.98%	14.83%	21.31%	20.83%	10.29%	9.77%	0.66%	0.12%
MSCI EAFE (4)				***3.36%***	***3.36%***				***11.56%***	***11.56%***	***15.31%***	***15.31%***	***18.62%***	***18.62%***	***8.10%***	***8.10%***	***-0.01%***	***-0.01%***
Clifton	107,486,768	5.6%	5.6%	4.12%	4.06%	103,233,465	5.5%	5.5%	11.99%	11.79%	16.60%	16.32%	17.25%	16.39%	9.03%	8.71%	N/A	N/A
MSCI EAFE				***3.36%***	***3.36%***				***11.56%***	***11.56%***	***15.31%***	***15.31%***	***18.62%***	***18.62%***	10.04%	10.04%		

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF OCTOBER 31, 2013

	October-13					September-13					Current Fiscal YTD		Prior FY13		3 Years Ended 6/30/2013		5 Years Ended 6/30/2013	
		Allocation		Month			Allocation		Quarter									
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Gross (7)	Net	Gross (7)	Net	Gross	Net	Gross	Net
DFA	34,325,414	1.8%	1.3%	4.18%	4.13%	32,946,952	1.8%	1.3%	15.90%	15.75%	20.74%	20.53%	24.89%	24.22%	12.34%	11.63%	2.91%	2.21%
Wellington	39,000,241	2.0%	1.3%	2.30%	2.24%	38,123,658	2.0%	1.3%	15.54%	15.35%	18.19%	17.93%	26.16%	25.31%	17.16%	16.27%	5.82%	4.90%
S&P/Citigroup BMI EPAC < $2BN				***1.82%***	***1.82%***				***14.42%***	***14.42%***	***16.51%***	***16.51%***	***18.05%***	***18.05%***	***9.78%***	***9.78%***	***1.26%***	***1.26%***
Total Developed International	**243,145,572**	**12.6%**	**11.8%**	**3.66%**	**3.61%**	**234,565,174**	**12.5%**	**11.8%**	**13.08%**	**12.92%**	**17.22%**	**17.00%**	**20.94%**	**20.22%**	**10.69%**	**10.15%**	**2.10%**	**1.54%**
MSCI EAFE (4)				***3.36%***	***3.36%***				***11.56%***	***11.56%***	***15.31%***	***15.31%***	***18.62%***	***18.62%***	***8.10%***	***8.10%***	***-0.01%***	***-0.01%***
Emerging Markets																		
JP Morgan	10,249,077	0.5%	0.5%	4.98%	4.91%	9,762,661	0.5%	0.5%	2.34%	2.14%	7.43%	7.16%	5.11%	4.28%	4.79%	4.01%	1.36%	0.57%
PanAgora	7,055,049	0.4%	0.5%	4.06%	4.01%	6,715,167	0.4%	0.5%	2.61%	2.45%	6.78%	6.55%	6.28%	5.58%	4.47%	3.72%	-0.81%	-1.55%
UBS	9,657,147	0.5%	0.8%	5.41%	5.33%	9,155,375	0.5%	0.8%	2.78%	2.54%	8.34%	8.01%	-0.62%	-1.55%	3.19%	2.34%	-0.59%	-1.46%
NTGI	14,563,238	0.8%	0.5%	4.84%	4.83%	13,890,769	0.7%	0.5%	5.79%	5.75%	10.91%	10.86%	N/A	N/A	N/A	N/A	N/A	N/A
DFA	14,009,247	0.7%	0.5%	3.84%	3.79%	13,491,370	0.7%	0.5%	3.45%	3.28%	7.42%	7.19%	9.18%	8.47%	6.59%	5.80%	6.52%	5.78%
Total Emerging Markets	**55,533,758**	**2.9%**	**2.8%**	**4.61%**	**4.56%**	**53,015,342**	**2.8%**	**2.8%**	**3.62%**	**3.47%**	**8.40%**	**8.18%**	**4.55%**	**3.82%**	**6.69%**	**5.97%**	**2.00%**	**1.17%**
MSCI Emerging Markets					***4.86%***				***5.77%***	***5.77%***	***10.91%***	***10.91%***	***2.87%***	***2.87%***	***3.48%***	***3.48%***	***-0.25%***	***-0.25%***
Private Equity																		
Coral Momentum Fund (Formerly Fund VI)	1,148,417	0.1%		-15.40%	-15.40%	1,357,487	0.1%		0.00%	0.00%	-15.40%	-15.40%	14.19%	14.19%	-4.54%	-4.54%	-15.94%	-16.01%
Brinson 1998 Partnership Fund	54,089	0.0%		0.00%	0.00%	54,089	0.0%		-1.10%	-1.10%	-1.10%	-1.10%	16.27%	16.27%	4.87%	4.87%	-5.39%	-5.63%
Brinson 1999 Partnership Fund	363,324	0.0%		0.00%	0.00%	532,987	0.0%		0.41%	0.41%	0.41%	0.41%	9.46%	9.46%	10.71%	10.71%	0.36%	0.11%
Brinson 2000 Partnership Fund	1,389,275	0.1%		0.00%	0.00%	1,389,275	0.1%		-2.20%	-2.20%	-2.20%	-2.20%	6.03%	6.03%	12.52%	12.52%	2.75%	2.50%
Brinson 2001 Partnership Fund	1,514,440	0.1%		0.00%	0.00%	1,514,440	0.1%		-1.46%	-1.46%	-1.46%	-1.46%	12.43%	12.43%	14.42%	14.42%	4.80%	4.55%
Brinson 2002 Partnership Fund	838,741	0.0%		0.00%	0.00%	838,741	0.0%		0.10%	0.10%	0.10%	0.10%	6.52%	6.52%	17.45%	17.45%	4.71%	4.45%
Brinson 2003 Partnership Fund	379,217	0.0%		0.00%	0.00%	379,217	0.0%		7.69%	7.69%	7.69%	7.69%	6.11%	6.11%	8.51%	8.51%	2.19%	1.94%
Total Brinson Partnership Funds	4,539,086	0.2%		0.00%	0.00%	4,708,749	0.3%		-0.53%	-0.53%	-0.53%	-0.53%	8.66%	8.66%	13.26%	13.26%	3.18%	2.93%
Brinson 1999 Non-US Partnership Fund	242,490	0.0%		0.00%	0.00%	242,490	0.0%		0.00%	0.00%	0.00%	0.00%	27.87%	27.87%	27.63%	27.63%	10.48%	10.21%
Brinson 2000 Non-US Partnership Fund	513,512	0.0%		0.00%	0.00%	513,512	0.0%		0.08%	0.08%	0.08%	0.08%	-1.13%	-1.13%	9.56%	9.56%	-2.18%	-2.43%
Brinson 2001 Non-US Partnership Fund	310,204	0.0%		0.00%	0.00%	310,204	0.0%		-0.27%	-0.27%	-0.27%	-0.27%	9.41%	9.41%	4.02%	4.02%	-7.57%	-7.82%
Brinson 2002 Non-US Partnership Fund	872,033	0.0%		0.00%	0.00%	872,033	0.0%		-2.67%	-2.67%	-2.67%	-2.67%	8.55%	8.55%	15.73%	15.73%	-2.33%	-2.59%
Brinson 2003 Non-US Partnership Fund	865,986	0.0%		0.00%	0.00%	865,986	0.0%		4.37%	4.37%	4.37%	4.37%	32.82%	32.82%	20.45%	20.45%	6.27%	6.00%
Brinson 2004 Non-US Partnership Fund	513,536	0.0%		0.00%	0.00%	570,792	0.0%		-1.83%	-1.83%	-1.83%	-1.83%	8.52%	8.52%	9.90%	9.90%	-2.30%	-2.55%
Total Brinson Non-US Partnership Fund	3,317,762	0.2%		0.00%	0.00%	3,375,018	0.2%		-0.07%	-0.07%	-0.07%	-0.07%	13.16%	13.16%	14.49%	14.49%	0.02%	-0.24%
Adams Street 2008 Non-US Partnership Fd	2,251,863	0.1%		0.00%	0.00%	2,251,863	0.1%		-0.23%	-0.23%	-0.23%	-0.23%	10.58%	10.58%	9.37%	9.37%	2.05%	-2.17%
Brinson BVCF IV	2,432,801	0.1%		1.67%	1.67%	2,392,944	0.1%		0.00%	0.00%	1.67%	1.67%	32.89%	32.89%	83.51%	83.51%	53.63%	53.35%
Adams Street Direct Co-investment Fund	7,434,282	0.4%		0.00%	0.00%	7,510,344	0.4%		0.00%	0.00%	0.00%	0.00%	11.74%	11.74%	13.70%	13.70%	3.10%	2.69%
Adams Street 2010 Direct Fund	469,232	0.0%		0.00%	0.00%	462,359	0.0%		-0.14%	-0.14%	-0.14%	-0.14%	2.36%	2.36%	4.96%	4.96%	N/A	N/A
Adams Street 2010 Non-US Emerging Mkts	166,716	0.0%		0.00%	0.00%	166,716	0.0%		-1.13%	-1.13%	-1.13%	-1.13%	-5.04%	-5.04%	N/A	N/A	N/A	N/A
Adams Street 2010 Non-US Developed Mkts	674,927	0.0%		0.00%	0.00%	674,927	0.0%		-0.70%	-0.70%	-0.70%	-0.70%	11.47%	11.47%	0.81%	0.81%	N/A	N/A
Adams Street 2010 Partnership Fund	1,357,228	0.1%		0.00%	0.00%	1,321,949	0.1%		0.00%	0.00%	0.00%	0.00%	10.31%	10.31%	15.54%	15.54%	N/A	N/A
Total Adams Street 2010 Funds	2,668,104	0.1%		0.00%	0.00%	2,625,951	0.1%		-0.27%	-0.27%	-0.27%	-0.27%	8.27%	8.27%	9.88%	9.88%	N/A	N/A
Matlin Patterson Global Opportunities	5,493	0.0%		0.00%	0.00%	5,493	0.0%		0.00%	0.00%	0.00%	0.00%	18.21%	18.21%	-1.05%	-1.05%	10.88%	10.07%
Matlin Patterson Global Opportunities II	677,885	0.0%		0.00%	0.00%	677,885	0.0%		-0.03%	-0.03%	-0.03%	-0.03%	-12.14%	-12.14%	-53.08%	-53.08%	-45.68%	-45.80%
Matlin Patterson Global Opportunities III	12,173,907	0.6%		0.00%	0.00%	12,173,907	0.6%		0.00%	0.00%	0.00%	0.00%	25.08%	25.08%	41.76%	41.76%	16.69%	15.28%
InvestAmerica (Lewis and Clark Fund)	2,804,987	0.1%		0.00%	0.00%	2,804,987	0.1%		0.00%	0.00%	0.00%	0.00%	17.77%	17.77%	10.58%	10.58%	7.57%	6.05%
L&C II	4,653,937	0.2%		0.00%	0.00%	4,653,937	0.2%		0.00%	0.00%	0.00%	0.00%	-4.18%	-4.18%	-5.04%	N/A	N/A	N/A
Hearthstone MSII	0	0.0%		0.00%	0.00%	0	0.0%		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-100.00%	-100.00%
Hearthstone MSIII	0	0.0%		0.00%	0.00%	0	0.0%		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	50.20%	50.20%	-100.00%	-100.00%
Corsair III (2)	5,652,797	0.3%		6.86%	6.86%	5,247,230	0.3%		-1.48%	-1.48%	5.28%	5.28%	-10.93%	-10.93%	-1.72%	-2.07%	-5.61%	-6.74%
Corsair III - ND Investors LLC (2)	5,320,176	0.3%		-0.21%	-0.21%	5,320,176	0.3%		0.22%	0.22%	0.00%	0.00%	8.19%	8.19%	4.27%	4.18%	2.33%	2.09%
Corsair IV	6,865,587	0.4%		4.97%	4.97%	4,840,660	0.3%		-1.85%	-1.85%	3.02%	3.02%	8.75%	8.75%	-5.01%	-5.19%	N/A	N/A
Capital International (CIPEF V)	8,714,736	0.5%		-0.39%	-0.39%	8,735,695	0.5%		-0.22%	-0.22%	-0.60%	-0.60%	-10.03%	-10.03%	6.63%	6.63%	3.60%	2.40%
Capital International (CIPEF VI)	5,725,115	0.3%		-1.68%	-1.68%	4,645,555	0.2%		-1.88%	-1.88%	-3.53%	-3.53%	-22.38%	-22.38%	N/A	N/A	N/A	N/A
EIG (formerly TCW)	10,574,503	0.5%		-0.99%	-0.99%	10,679,766	0.6%		-3.94%	-3.94%	-4.88%	-4.88%	0.37%	0.37%	6.67%	6.67%	11.10%	10.10%
Quantum Resources	4,140,116	0.2%		-0.79%	-0.79%	4,172,971	0.2%		-3.52%	-3.52%	-4.28%	-4.28%	36.60%	36.60%	38.33%	38.33%	-31.99%	-37.56%
Quantum Energy Partners	4,235,597	0.2%		0.35%	0.35%	4,275,224	0.2%		0.04%	0.04%	0.38%	0.38%	18.79%	18.79%	23.23%	23.23%	9.73%	7.86%
Total Private Equity (8)	**95,337,150**	**5.0%**	**5.0%**	**0.25%**	**0.25%**	**92,455,844**	**4.9%**	**5.0%**	**-0.90%**	**-0.90%**	**-0.65%**	**-0.65%**	**6.69%**	**6.69%**	**8.85%**	**8.85%**	**0.59%**	**0.27%**

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF OCTOBER 31, 2013

	October-13					September-13					Current Fiscal YTD		Prior FY13		3 Years Ended 6/30/2013		5 Years Ended 6/30/2013	
		Allocation		Month			Allocation		Quarter									
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Gross (7)	Net	Gross (7)	Net	Gross	Net	Gross	Net
GLOBAL FIXED INCOME	419,065,928	21.8%	22.0%	1.26%	1.24%	405,691,264	21.6%	22.0%	1.13%	1.07%	1.13%	1.07%	5.94%	5.71%				
Benchmark				0.68%	0.68%				1.48%	1.48%	1.48%	1.48%	0.93%	0.93%				
Domestic Fixed Income	324,947,510	16.9%	17.0%	1.35%	1.34%	318,447,181	16.9%	17.0%	0.89%	0.85%	0.89%	0.85%	7.56%	7.37%				
Benchmark				0.57%	0.57%				1.07%	1.07%	1.07%	1.07%	2.22%	2.22%				
Investment Grade Fixed Income																		
PIMCO (DiSCO II) (8)	31,338,308	1.6%	1.9%	2.38%	2.38%	43,530,899	2.3%	1.9%	2.01%	2.01%	4.44%	4.44%	33.07%	33.07%	N/A	N/A	N/A	N/A
BC Aggregate					0.81%				0.57%	0.57%	1.38%	1.38%	-0.69%	-0.69%				
State Street	25,529,402	1.3%	1.2%	1.33%	1.33%	20,793,887	1.1%	1.2%	-2.23%	-2.24%	-0.93%	-0.94%	N/A	N/A	N/A	N/A	N/A	N/A
BC Long Treasuries					1.33%				-2.23%	-2.23%	-0.93%	-0.93%	-8.36%	-8.36%				
PIMCO (Unconstrained) (9)	35,830,299	1.9%	1.4%	0.13%	0.13%	26,325,858	1.4%	1.4%	-0.27%	-0.27%	-0.15%	-0.15%	2.20%	2.20%	N/A	N/A	N/A	N/A
3m LIBOR					0.02%				0.07%	0.07%	0.09%	0.09%	0.34%	0.34%				
Declaration (Total Return) (9)	25,956,379	1.3%	1.4%	0.98%	0.98%	26,513,570	1.4%	1.4%	0.97%	0.97%	1.96%	1.96%	7.83%	7.83%	N/A	N/A	N/A	N/A
3m LIBOR				0.02%	0.02%				0.07%	0.07%	0.09%	0.09%	0.34%	0.34%				
Western Asset	44,246,317	2.3%	2.4%	0.68%	0.67%	44,880,070	2.4%	2.4%	0.91%	0.87%	1.60%	1.54%	-1.31%	-1.48%	N/A	N/A	N/A	N/A
PIMCO (MBS)	65,482,615	3.4%	3.6%	0.64%	0.62%	66,464,638	3.5%	3.6%	0.72%	0.68%	1.36%	1.31%	-0.45%	-0.62%	N/A	N/A	N/A	N/A
BC Mortgage Backed Securities Index					0.68%				1.03%	1.03%	1.71%	1.71%	-1.10%	-1.10%				
Total Investment Grade Fixed Income	228,383,320	11.9%	12.0%	1.02%	1.01%	228,508,920	12.2%	12.0%	0.64%	0.62%	1.67%	1.64%	5.13%	5.04%	5.86%	5.65%	4.28%	3.78%
BC Aggregate				0.81%	0.81%				0.57%	0.57%	1.38%	1.38%	-0.69%	-0.69%	3.51%	3.51%	5.19%	5.19%
Below Investment Grade Fixed Income																		
Loomis Sayles	88,090,246	4.6%	4.6%	2.35%	2.31%	83,622,316	4.4%	4.7%	1.79%	1.67%	4.18%	4.03%	12.75%	12.25%	11.41%	10.91%	10.28%	9.77%
PIMCO (BRAVO II) (9)	2,164,775	0.1%	0.1%	N/A	N/A													
Goldman Sachs 2006 Fund (8)	1,678,488	0.1%	0.1%	0.00%	0.00%	1,680,291	0.1%	0.1%	-0.32%	-0.32%	-0.32%	-0.32%	18.49%	18.49%	6.96%	6.96%	3.82%	1.93%
Goldman Sachs Fund V (8)	4,630,680	0.2%	0.2%	0.00%	0.00%	4,635,655	0.2%	0.2%	-0.75%	-0.75%	-0.75%	-0.75%	17.11%	17.11%	15.96%	15.96%	13.95%	13.42%
Total Below Investment Grade Fixed Income	96,564,189	5.0%	5.0%	2.18%	2.15%	89,938,261	4.8%	5.0%	1.62%	1.51%	3.84%	3.69%	14.10%	13.64%	11.75%	11.35%	8.27%	7.62%
LB High Yield 2% Issuer Constrained Index					2.50%				2.28%	2.28%	4.84%	4.84%	9.50%	9.50%	10.69%	10.69%	11.00%	11.00%
International Fixed Income	94,118,418	4.9%	5.0%	0.91%	0.88%	87,244,082	4.6%	5.0%	1.98%	1.89%	1.98%	1.89%	0.83%	0.48%				
Benchmark				1.07%	1.07%				2.86%	2.86%	2.86%	2.86%	-3.40%	-3.40%				
Developed Investment Grade Int'l FI																		
UBS Global (Brinson)	46,838,917	2.4%	2.5%	0.98%	0.95%	41,975,644	2.2%	2.5%	3.77%	3.69%	4.79%	4.68%	-3.45%	-3.74%	3.64%	3.34%	2.89%	2.59%
BC Global Aggregate ex-US (6)					1.07%				2.86%	2.86%	3.96%	3.96%	-3.40%	-3.40%	3.46%	3.46%	3.11%	3.11%
Brandywine	47,279,501	2.5%	2.5%	0.85%	0.82%	45,268,439	2.4%	2.5%	0.37%	0.27%	1.22%	1.09%	5.00%	4.59%	9.95%	9.53%	8.53%	8.11%
BC Global Aggregate (ex-US)					0.98%				2.80%	2.80%	3.80%	3.80%	-2.18%	-2.18%	3.55%	3.55%	3.43%	3.43%
Total Developed Investment Grade Int'l FI	94,118,418	4.9%	5.0%	0.91%	0.88%	87,244,082	4.6%	5.0%	1.98%	1.89%	2.91%	2.79%	0.83%	0.48%	6.89%	6.53%	5.97%	5.61%
BC Global Aggregate ex-US				1.07%	1.07%				2.86%	2.86%	3.96%	3.96%	-3.40%	-3.40%	3.46%	3.46%	3.11%	3.11%

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF OCTOBER 31, 2013

	October-13					September-13					Current Fiscal YTD		Prior FY13		3 Years Ended 6/30/2013		5 Years Ended 6/30/2013	
		Allocation		Month			Allocation		Quarter									
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Gross (7)	Net	Gross (7)	Net	Gross	Net	Gross	Net
GLOBAL REAL ASSETS	***334,888,020***	***17.4%***	***20.0%***	***0.09%***	***0.06%***	***337,245,747***	***17.9%***	***20.0%***	***1.53%***	***1.43%***	***1.53%***	***1.43%***	***8.29%***	***7.89%***				
Benchmark				***0.00%***	***0.00%***				***1.67%***	***1.67%***	***1.67%***	***1.67%***	***8.09%***	***8.09%***				
Global Real Estate																		
INVESCO - Core	66,811,686			0.00%	-0.04%	66,811,686			2.25%	2.13%	2.25%	2.09%	13.36%	12.84%	15.85%	15.38%	0.04%	-0.46%
INVESCO - Fund II (8)	10,828,730			5.18%	5.18%	10,295,447			0.00%	0.00%	5.18%	5.18%	23.44%	23.44%	35.58%	35.58%	-15.67%	-16.63%
INVESCO - Fund III (9)	10,692,110			6.38%	6.38%	10,050,416			0.00%	0.00%	6.38%	6.38%	16.79%	16.79%	N/A	N/A	N/A	N/A
INVESCO - Asia Real Estate Fund (8)	10,792,339			0.00%	0.00%	10,792,339			-1.09%	-1.09%	-1.09%	-1.09%	-5.61%	-5.61%	-4.32%	-4.32%	N/A	N/A
J.P. Morgan Strategic & Special Funds	61,494,491			0.75%	0.68%	61,177,491			4.50%	4.28%	5.29%	5.00%	14.62%	13.66%	16.20%	15.23%	0.20%	-0.82%
J.P. Morgan Alternative Property Fund	2,646,116			0.00%	-0.01%	2,646,116			11.43%	11.40%	11.43%	11.39%	15.24%	15.13%	15.71%	15.35%	-6.30%	-7.55%
J.P. Morgan Greater Europe Fund (8)	4,830,455			0.51%	0.51%	4,809,670			4.40%	4.40%	4.93%	4.93%	-48.64%	-48.64%	-106.48%	-106.48%	N/A	N/A
J.P. Morgan Greater China Property Fund (8)	7,073,362			0.05%	0.05%	9,669,059			-0.04%	-0.04%	0.02%	0.02%	-4.51%	-4.51%	2.30%	2.30%	1.53%	0.33%
Total Global Real Estate	**175,169,291**	**9.1%**	**10.0%**	**0.95%**	**0.91%**	**176,252,225**	**9.4%**	**10.0%**	**2.56%**	**2.45%**	**3.53%**	**3.37%**	**11.04%**	**10.55%**	**15.90%**	**15.36%**	**-1.43%**	**-2.21%**
NCREIF TOTAL INDEX					***0.86%***				***2.78%***	***2.78%***	***3.66%***	***3.66%***	***10.72%***	***10.72%***	***13.14%***	***13.14%***	***2.79%***	***2.79%***
Timber																		
TIR - Teredo (7)	33,227,136	1.7%		-3.41%	-3.41%	34,401,079	1.8%		0.00%	0.00%	-3.41%	-3.41%	5.64%	5.64%	3.09%	3.09%	5.33%	5.20%
TIR - Springbank	54,759,708	2.8%		-0.36%	-0.36%	54,968,505	2.9%		0.02%	0.02%	-0.34%	-0.34%	-2.45%	-2.45%	-3.02%	-3.02%	-4.88%	-4.92%
Total Timber	**87,986,844**	**4.6%**	**5.0%**	**-1.53%**	**-1.53%**	**89,369,584**	**4.8%**	**5.0%**	**0.01%**	**0.01%**	**-1.52%**	**-1.52%**	**0.58%**	**0.58%**				
NCREIF Timberland Index(8)					***0.31%***				***0.93%***	***0.93%***	***1.24%***	***1.24%***	***9.35%***	***9.35%***	***3.71%***	***3.71%***	***0.47%***	***2.51%***
Infrastructure																		
JP Morgan (Asian)	13,624,013	0.7%		0.08%	0.08%	13,624,013	0.7%		0.11%	0.11%	*0.19%*	0.19%	*23.99%*	23.99%	6.83%	6.83%	N/A	N/A
JP Morgan (IIF)	44,031,299	2.3%		0.00%	-0.08%	44,031,299	2.3%		1.87%	1.63%	1.87%	1.54%	10.64%	9.57%	7.42%	6.12%	-0.12%	-1.56%
Credit Suisse	14,076,574	0.7%		-0.05%	-0.05%	13,968,627	0.7%		-1.31%	-1.31%	-1.36%	-1.36%	9.43%	9.43%	N/A	N/A	N/A	N/A
Total Infrastructure (8)	**71,731,886**	**3.7%**	**5.0%**	**0.01%**	**-0.04%**	**71,623,938**	**3.8%**	**5.0%**	**0.89%**	**0.74%**	**0.89%**	**0.69%**	**12.33%**	**11.60%**				
CPI					***-0.35%***				***0.23%***	***0.23%***	***-0.12%***	***-0.12%***	***1.75%***	***1.75%***				
Cash Equivalents																		
Northern Trust STIF	13,821,390				0.01%	11,303,994			0.01%	0.01%	0.02%	0.02%	0.10%	0.10%	0.12%	0.12%	0.33%	0.30%
Total Cash Equivalents	**13,821,390**	**0.7%**	**1.0%**	**0.01%**	**0.01%**	**11,303,994**	**0.6%**	**1.0%**	**0.01%**	**0.01%**	**0.02%**	**0.02%**	**0.10%**	**0.10%**	**0.13%**	**0.13%**	**0.35%**	**0.34%**
90 Day T-Bill					***0.00%***				***0.02%***	***0.02%***	***0.01%***	***0.01%***	***0.11%***	***0.11%***	***0.11%***	***0.11%***	***0.30%***	***0.30%***

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.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

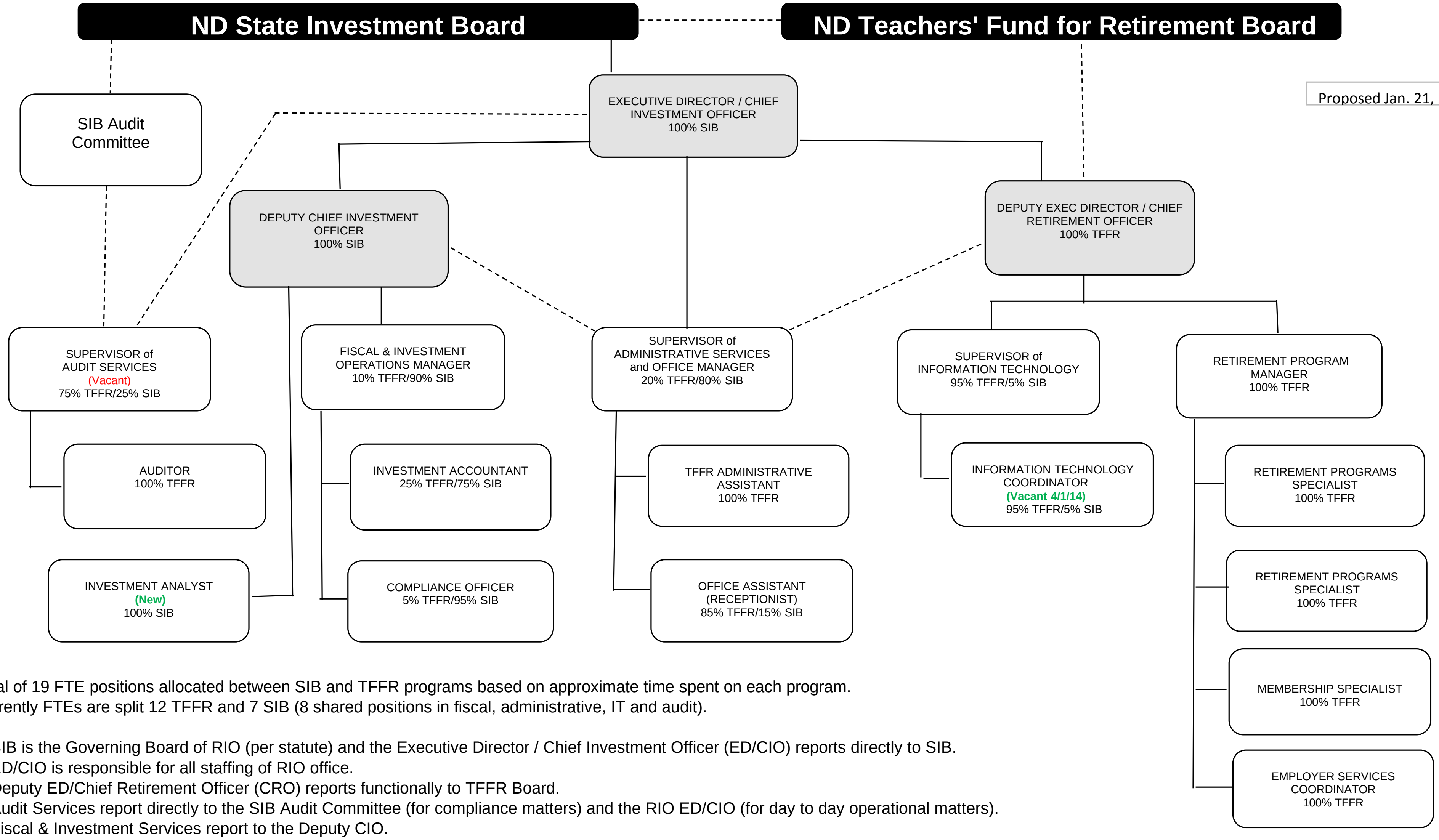
Staffing Update

During the past two months, the RIO team has been successful in filling three vacant positions, promoting from within to eliminate a future vacancy in Information Technology and posting for the Audit Supervisor position. We are also in the process of revising our organizational chart to more accurately reflect observed reporting lines from a functional perspective.

The RIO Executive Team understands the importance of proper staffing levels as the success of the Agency is critically dependent on the interaction and effectiveness of our outstanding staff.

- David Hunter joined RIO as Executive Director/CIO on December 2, 2013.
- Cody Schmidt joined RIO as Compliance Officer on December 9, 2013.
- Connie Flanagan will be rejoining RIO as Fiscal and Investment Officer on January 21, 2014.
- Gary Vetter announced his retirement on November 4, 2013, as RIO's Information Technology Supervisor. Mr. Vetter's last day will be March 31, 2014.
- Rich Nagel will be promoted to RIO's Information Technology Supervisor effective April 1, 2014.
- RIO's Audit Supervisor position was posted on December 31, 2013, and closes on January 24, 2014.
- The Investment Analyst position will be posted once an organizational review of investment and fiscal division duties are reviewed.

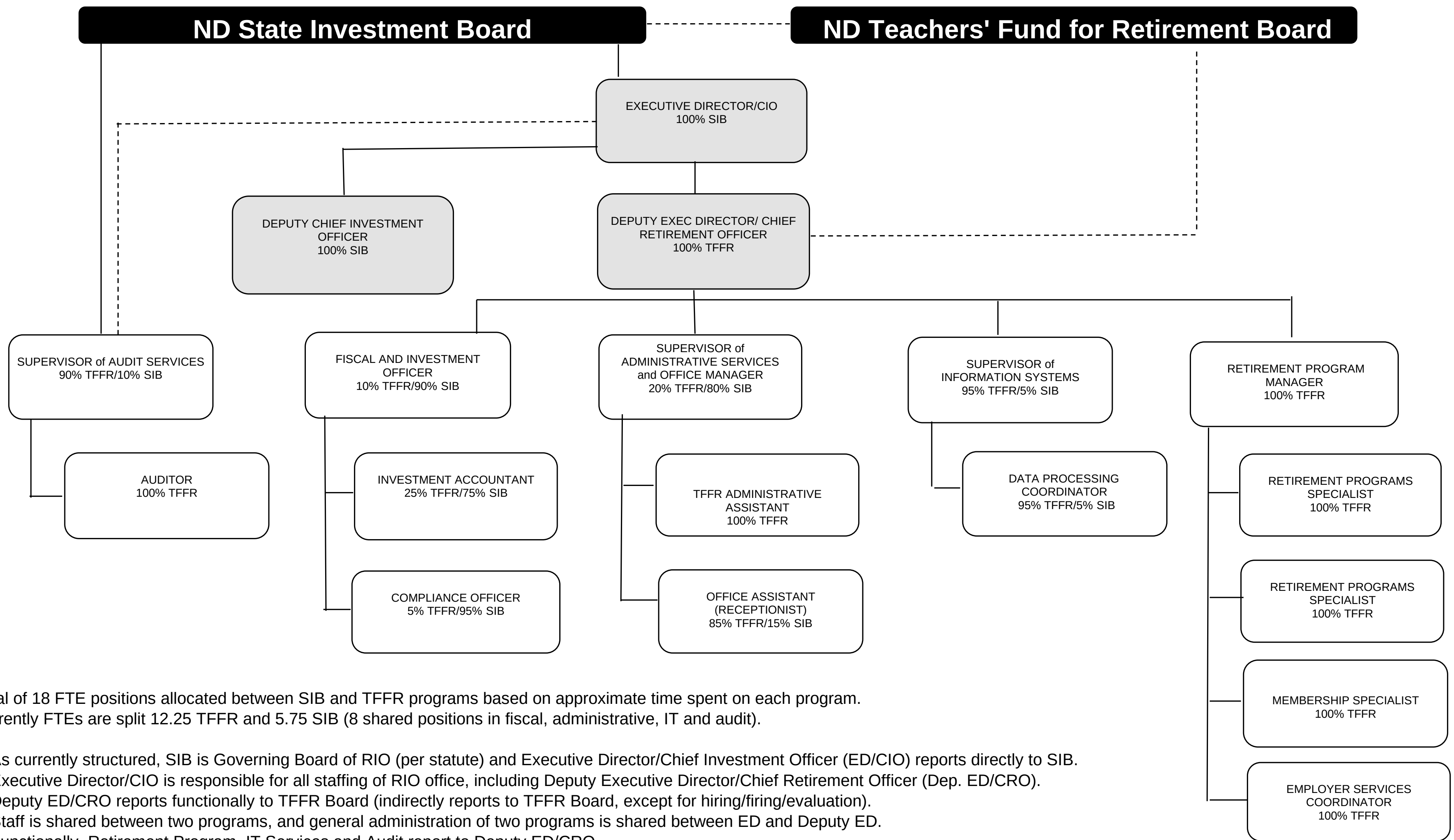
ND Retirement and Investment Office (RIO)
Agency Organizational Chart (January 2014)



Total of 19 FTE positions allocated between SIB and TFFR programs based on approximate time spent on each program.
Currently FTEs are split 12 TFFR and 7 SIB (8 shared positions in fiscal, administrative, IT and audit).

1. SIB is the Governing Board of RIO (per statute) and the Executive Director / Chief Investment Officer (ED/CIO) reports directly to SIB.
2. ED/CIO is responsible for all staffing of RIO office.
3. Deputy ED/Chief Retirement Officer (CRO) reports functionally to TFFR Board.
4. Audit Services report directly to the SIB Audit Committee (for compliance matters) and the RIO ED/CIO (for day to day operational matters).
5. Fiscal & Investment Services report to the Deputy CIO.
6. Administrative & Office Services report directly to the ED/CIO and is functionally shared with the Deputy ED/CRO and Deputy CIO.
7. Retirement Program and IT Services report to the Deputy ED/CRO.
8. RIO Executive Team includes the Deputy CIO, Deputy ED/CRO & ED/CIO.
9. RIO Management includes the Audit Supervisor, Fiscal & Investment Operations Manager, Administrative Services Supervisor, IT Supervisor, Retirement Program Manager and RIO Executive Team.

ND Retirement and Investment Office (RIO)
Agency Organizational Chart (December 2013)



Total of 18 FTE positions allocated between SIB and TFFR programs based on approximate time spent on each program.
Currently FTEs are split 12.25 TFFR and 5.75 SIB (8 shared positions in fiscal, administrative, IT and audit).

1. As currently structured, SIB is Governing Board of RIO (per statute) and Executive Director/Chief Investment Officer (ED/CIO) reports directly to SIB.
2. Executive Director/CIO is responsible for all staffing of RIO office, including Deputy Executive Director/Chief Retirement Officer (Dep. ED/CRO).
3. Deputy ED/CRO reports functionally to TFFR Board (indirectly reports to TFFR Board, except for hiring/firing/evaluation).
4. Staff is shared between two programs, and general administration of two programs is shared between ED and Deputy ED.
5. Functionally, Retirement Program, IT Services and Audit report to Deputy ED/CRO.

MEMORANDUM

TO: TFFR Board
FROM: Fay Kopp
DATE: January 16, 2014
SUBJ: GASB Implementation Plan

NDTFFR, NDPERS, and the State Auditor's Office (SAO), have started making plans to implement the new pension reporting standards, GASB Statements No. 67 and No. 68, in the State of ND. Our goal is to work through this process jointly (where appropriate) in order to reduce costs and provide consistency for state and local governments, school districts, and other TFFR and PERS participating employers. Following is a preliminary summary of our tentative plans to date.

Team members include:

TFFR: Fay Kopp, Shelly Schumacher, and Susan Walcker
PERS: Sparb Collins, Deb Knudsen, and Sharon Schiermeister
SAO: Ron Tolstad

October – December 2013

- Shelly and Susan, RIO staff, attended Public Pension Fund conference on GASB implementation.
- Segal consultants made GASB presentations to TFFR Board, PERS Board, and Legislative Employee Benefits Programs Committee.
- TFFR and PERS staff held initial GASB planning meeting.
- Fay and Sparb met with State Auditor Bob Peterson, Ed Nagel, and Ron Tolstad, State Auditor's Office (SAO).

January – March 2014

- Fay, Sparb, and Ron met to discuss a joint GASB #68 implementation planning meeting in March – April which would be hosted by SAO, TFFR, and PERS. The planning meeting will include TFFR and PERS staff, actuaries, and auditors; State Auditor's Office; State Office of Management and Budget (OMB); 10 -12 participating employers including administrator/ business manager/auditor from school districts, cities, counties, and state; representatives from NDCEL, NDSBA, NDSBMA, ND United; League of Cities, Association of Counties, etc. At meeting, we plan to provide GASB #68 information, request feedback, and field questions from attendees to assist TFFR, PERS, and SAO in developing GASB #68 implementation plan and future training session for all employers.

- TFFR sent survey to all participating employers (sample attached).

- Actuaries, auditors, and TFFR and PERS staff will review GASB #68 Implementation Guide (when it becomes available) and create draft implementation plan.

Spring – Summer 2014

- Based on feedback from GASB implementation planning meeting, modify and finalize GASB #68 implementation plan.

- Schedule GASB #68 implementation training session for <u>all</u> TFFR and PERS employers.

Summer-Fall 2014

- Host GASB #68 implementation training session for representatives of all state and local governments, school districts, and other TFFR and PERS participating employers.

- Webcast GASB #68 training session for availability on TFFR and PERS websites.

- Implement GASB #67 in 2014 actuarial and audit reports.

- Continue refining plans to implement GASB #68 in 2015 actuarial and audit reports.

Other possible GASB presentations / meetings:

NDSBMA	May 2014, May 2015
ND School Study Council	September 2014
NDCEL	October 2014
NDSBA	October 2014
League of Cities	
Assn. of Counties	

Enclosure

TFFR Employer Survey
Financial Reporting of TFFR Pension Data

The Government Accounting Standards Board (GASB) has approved two new standards that will change the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, *Financial Reporting for Pension Plans,* addresses financial reporting for state and local government pension plans (TFFR). Statement No. 68, *Accounting and Financial Reporting for Pensions,* establishes new accounting and financial reporting requirements for governments that provide their employees with pensions (school districts and other participating employers). For additional information please visit http://www.gasb.org/ and GASB Summary Statement No. 68

To assist you in implementing the new GASB standards, TFFR needs to better understand each school district/employer's current financial reporting practices. ***Please complete and return this survey to TFFR by February 1, 2014.***

1. Do you prepare annual audited financial statements? Yes No

2. Do you use GAAP accrual accounting? Yes No

3. If answer to #2 is no, what form of accounting is used? ___________________________________

4. When is your fiscal year end? ____

5. When do you generally prepare your financial statements for your auditors? _________________

6. Are your audited financial statements required to be completed by a certain date? Yes No

7. If answer to #6 is yes, what is the required date? _______________________________________

8. Who is your current auditor? ____

9. Have you discussed with your auditor the new pension reporting requirements? Yes No

____________________________	_________________________________	______________
Employer Name	Business Manager Signature	Date

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **January 16, 2014**

SUBJ: **IRS Plan Qualification Review**

NDTFFR has received two favorable plan qualification letters from the IRS (see attached 2012 letter).

	Initial Request	**Cycle C/E**
Date filed	06/2000	07/2010
Date received	01/2001	05/2012
Expiration date	Open	01/2014 (extended to 01/2016)

Under the cycle-based determination letter filing program established by the IRS in 2005, governmental plan sponsors file for determination letters in Cycle C. The deadline for filing determination letter applications for Cycle C filers is January 31, 2014. However, as it did for the last Cycle C, the IRS is once again allowing governmental plans to file in Cycle E if they prefer to do so. The second Cycle E runs from February 1, 2015 to January 31, 2016. The IRS will extend the expiration date of the determination letter from the last Cycle C (or E) to January 31, 2016, the expiration date of the second Cycle E, for any governmental plan that chooses to file in Cycle E.

The advantage of filing pursuant to these programs is that a favorable determination letter from the IRS assures a qualified plan that the written form of the plan document complies with all IRS qualification provisions to the date of the letter. A determination letter also permits a plan to amend and correct the written plan for required IRS qualification provisions that go into effect after the letter is received until the end of the next filing period (5-year filing cycle). Thus, if the IRS audits the plan, and the plan has a current determination letter, they cannot impose penalties for incorrect written plan provisions that are required for qualified plans. Please note, however, that IRS determination letters do not provide any assurance that the plan is <u>operating</u> in compliance with IRS qualification requirements.

We are planning to again submit the NDTFFR plan in Cycle E, by January 31, 2016. Prior to that time, I will ask Melanie Walker, Segal Company, to conduct a compliance review of our statutes to identify whether any other statute changes need to be made.

Enclosure

INTERNAL REVENUE SERVICE
P. O. BOX 2508
CINCINNATI, OH 45201

DEPARTMENT OF THE TREASURY

Date: MAY 30 2012

NORTH DAKOTA TEACHERS FUND FOR
RETIREMENT BOARD
C/O CALHOUN LAW GROUP, P.C.
CAROL V CALHOUN
9112 LINDALE DR
BETHESDA, MD 20817

Employer Identification Number:
45-6002349
DLN:
17007211052000
Person to Contact:
RUTH CHEN ID# 95048
Contact Telephone Number:
(626) 312-3628
Plan Name:
NORTH DAKOTA TEACHERS FUND FOR
RETIREMENT
Plan Number: 001

Dear Applicant:

We have made a favorable determination on the plan identified above based on the information you have supplied. Please keep this letter, the application forms submitted to request this letter and all correspondence with the Internal Revenue Service regarding your application for a determination letter in your permanent records. You must retain this information to preserve your reliance on this letter.

Continued qualification of the plan under its present form will depend on its effect in operation. See section 1.401-1(b)(3) of the Income Tax Regulations. We will review the status of the plan in operation periodically.

The enclosed Publication 794 explains the significance and the scope of this favorable determination letter based on the determination requests selected on your application forms. Publication 794 describes the information that must be retained to have reliance on this favorable determination letter. The publication also provides examples of the effect of a plan's operation on its qualified status and discusses the reporting requirements for qualified plans. Please read Publication 794.

This letter relates only to the status of your plan under the Internal Revenue Code. It is not a determination regarding the effect of other federal or local statutes.

This determination letter gives no reliance for any qualification change that becomes effective, any guidance published, or any statutes enacted, after the issuance of the Cumulative List (unless the item has been identified in the Cumulative List) for the cycle under which this application was submitted.

This letter may not be relied on after the end of the plan's first five-year remedial amendment cycle that ends more than twelve months after the application was received. This letter expires on January 31, 2014. This letter considered the 2009 Cumulative List of Plan Qualification Requirements.

This determination is subject to your adoption of the proposed amendments submitted in your letter dated 4-29-11. The proposed amendments

NORTH DAKOTA TEACHERS FUND FOR

should be adopted on or before the date prescribed by the regulations under Code section 401(b).

This determination is conditioned upon your adoption of the proposed restated plan as submitted with your or your representative's letter dated 7-27-10. The proposed plan should be adopted on or before the date prescribed by the regulations under Code section 401(b).

This determination letter is based solely on your assertion that the plan is entitled to be treated as a Governmental plan under section 414(d) of the Internal Revenue Code.

This determination letter is applicable to the plan and related documents submitted in conjunction with your application filed during the remedial amendment cycle ending 2011.

We have sent a copy of this letter to your representative as indicated in the Form 2848 Power of Attorney or appointee as indicated by the Form 8821 Tax Information Authorization.

If you have questions concerning this matter, please contact the person whose name and telephone number are shown above.

Sincerely,

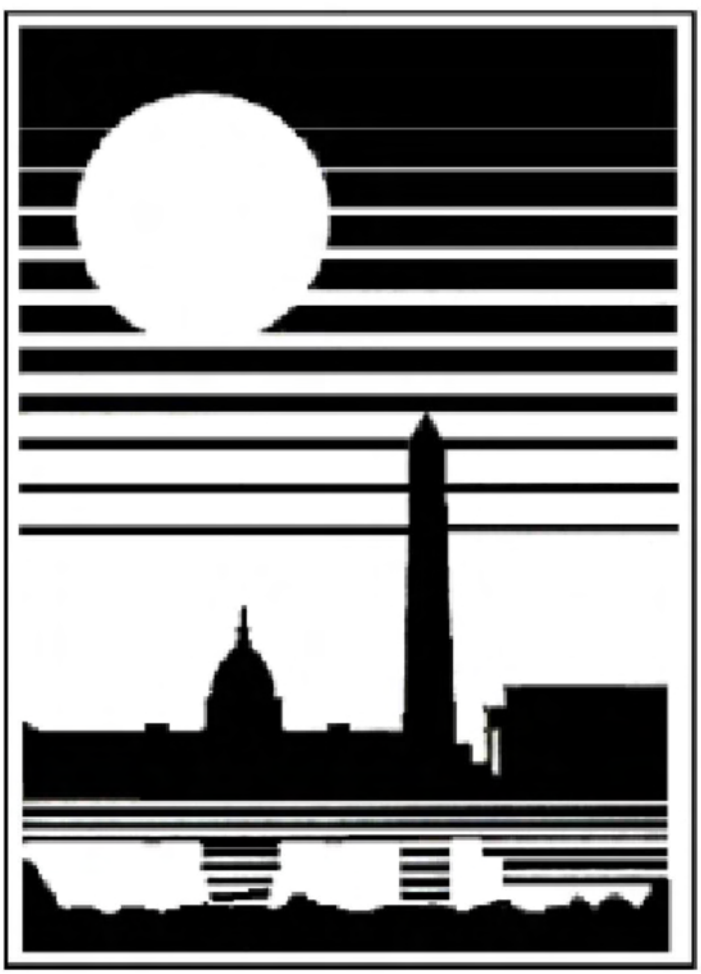
Andrew E. Zuckerman
Director, EP Rulings & Agreements

Enclosures:
Publication 794

Publication 794
(Rev. October 2010)
Catalog Number 20630M

Department
of the
Treasury
Internal
Revenue
Service

Favorable Determination Letter



Introduction

This publication explains the significance of your favorable determination letter, points out some features that may affect the qualified status of your employee retirement plan and nullify your determination letter without specific notice from us, and provides general information on the reporting requirements for your plan.

Significance of a Favorable Determination Letter

An employee retirement plan qualified under Internal Revenue Code (IRC) section 401(a) (qualified plan) is entitled to favorable tax treatment. For example, contributions made in accordance with the plan document are generally currently deductible. However, participants will not include these contributions in income until the time they receive a distribution from the plan, at which time special income averaging rates for lump sum distributions may serve to reduce the tax liability. In some cases, taxation may be further deferred by rollover to another qualified plan or individual retirement arrangement. (See Publication 575, Pension and Annuity Income, for further details.) Finally, plan earnings may accumulate tax free. Employee retirement plans that fail to satisfy the requirements under IRC section 401(a) are not entitled to favorable tax treatment. Therefore, many employers desire advance assurance that the terms of their plans satisfy the qualification requirements.

The Internal Revenue Service provides such advance assurance through the determination letter program. A favorable determination letter indicates that, in the opinion of the IRS, the terms of the plan conform to the requirements of IRC section 401(a). A favorable determination letter expresses the IRS's opinion regarding the form of the plan document. However, to be a qualified plan under IRC section 401(a) entitled to favorable tax treatment, a plan must satisfy, in both form and operation, the requirements of IRC section 401(a), including nondiscrimination and coverage requirements. A favorable determination letter may also provide assurance, on the basis of information and demonstrations provided in your application, that the plan satisfies certain of these nondiscrimination and coverage requirements in form or operation. See the following topic, Limitations and Scope of a Favorable Determination Letter, for more details.

Limitations and Scope of a Favorable Determination Letter

A favorable determination letter is limited in scope. A determination letter generally applies to qualification requirements regarding the form of the plan. A determination letter may also apply to certain operational (non-form) requirements.

Generally, a favorable determination letter does not consider, and may not be relied on with regard to:

- certain requirements under IRC section 401(a)(4), including the requirement that the plan be nondiscriminatory in the amounts of contributions or benefits for highly compensated and nonhighly compensated employees;
- the coverage requirements under IRC sections 410(b) and 401(a)(26); and
- the definition of compensation under IRC section 414(s).

In addition, a favorable determination letter may not be relied on for any qualification changes that becomes effective, any guidance published, or any statutes enacted, after the issuance of the applicable Cumulative List of Changes in Plan Qualification Requirements (Cumulative List) unless the item has been identified in that Cumulative List for the cycle under which the application was submitted. See section 4 of Revenue Procedure (Rev. Proc.) 2007-44, 2007-28 I.R.B. 54.

However, if you requested one or more of the optional nondiscrimination and coverage determinations offered on the determination letter application forms (Form 5300, Form 5307, Schedule Q), your favorable determination letter considers, and may be relied on, with regard to the specific determination(s) you requested, provided you satisfy the following requirement: you must retain copies of the application forms, any required demonstrations, and all correspondence with the IRS Revenue Service related to the application for a favorable determination letter. **A favorable determination letter cannot be relied on with regard to any optional determination request unless all of the required information is retained.**

In addition, the following apply generally to all determination letters:

- If you maintain two or more retirement plans, some of which were either not submitted to the IRS for determination or not disclosed on each application, certain limitations and requirements will not have been considered on an aggregate basis. Therefore, you may not rely on the determination letter regarding the plans when considered as a total package.

- A determination letter for a defined benefit plan may be relied on regarding the requirements of IRC section 401(a)(26) if the application requested a determination regarding section 410(b).

- A determination letter does not consider the special requirements relating to: (a) affiliated service groups, (b) leased employees, or (c) plan assets or liabilities involved in a merger, consolidation, spin-off or transfer of assets with another plan unless the letter includes a statement that the requirements of IRC section 414(m) (affiliated service groups), or 414(n) (leased employees) has been considered.

- No determination letter may be relied on with respect to the effective availability of benefits, rights, or features under the plan. (See section 1.401(a)(4)-4(c) of the Income Tax Regulations.) Reliance on whether benefits, rights, or features are currently available to a non-discriminatory group of employees is provided to the extent requested in the application.

- A determination letter does not consider whether actuarial assumptions are reasonable for funding or deduction purposes or whether a specific contribution is deductible.

- A determination letter does not consider, and may not be relied on with respect to, certain other matters described in section 5 of Rev. Proc. 2009-6, 2009-1 I.R.B. 189 (i.e., whether a plan amendment is part of a pattern of amendments that significantly discriminates in favor of highly compensated employees; the use of the substantiation guidelines contained in Rev. Proc. 93-42, 1993-31 I.R.B. 32; and certain qualified separate lines of business requirements of IRC section 414(r)).

- The determination letter applies only to the employer and its participants on whose behalf the determination letter was issued.

- A determination letter does not express an opinion whether disability benefits or medical care benefits are acceptable as accident or health plan benefits deductible under IRC section 105 or 106.

- A determination letter does not express an opinion on whether the plan is a governmental plan defined in IRC section 414(d).

- A determination letter does not express an opinion on whether contributions made to a plan treated as a governmental plan defined in IRC section 414(d) constitute employer contributions under IRC section 414(h)(2), nor on whether a governmental excess benefit arrangement satisfies the requirements of IRC section 415(m).

You should become familiar with the terms of the determination letter. Please call the contact person listed on the determination letter if you do not understand any terms in your determination letter.

Retention of information. Whether a plan meets the qualification requirements is determined from the information in the written plan document, the application form and the supporting information submitted by the employer. **Therefore, you must retain copies of any demonstrations or other information submitted with your application. Such demonstrations determine the extent of reliance provided by your determination letter. Failure to retain such information may limit the scope of reliance on issues for which demonstrations were provided.**

Other conditions for reliance. We have not verified the information submitted with your application. The determination letter will not provide reliance if:

(1) there has been a mistatement or omission of material facts, (for example, the application indicated that the plan was a governmental plan and it was not a governmental plan);

(2) the facts subsequently developed are materially different than the facts on

which the determination was made; or

(3) there is a change in applicable law.

Law changes affecting the plan. A determination issued to an adopting employer of an individually designed plan will be based on the most recent Cumulative List published prior to the one year period starting February 1st and ending January 31st in which the determination letter application was filed. The Cumulative List is a list published annually by the IRS that identifies on a year-by-year basis all changes in the qualification requirements resulting from statute changes, regulations, or other guidance published in the Internal Revenue Bulletin that are required to be taken into account in the written plan document. See sections 4, 13, and 14 of Rev. Proc. 2007-44 for further details. Generally, a determination letter issued to an adopting employer of a pre-approved plan (i.e., Master & Prototype (M&P) plan or volume submitter (VS) plan) will be based on the Cumulative List used by the IRS in reviewing the pre-approved plan. However, see section 19 of Rev. Proc. 2007-44 for exceptions to this rule. For terminating plans, a determination letter is based on the law in effect at the time of the plan's proposed date termination. See Section 8 of Rev. Proc. 2007-44.

Amendments to the plan. A favorable determination letter issued to an individually designed plan will provide reliance up to and including the expiration date identified on the determination letter. This reliance is conditioned upon the timely adoption of any necessary interim amendments as required by section 5.04 of Rev. Proc.2007-44. A favorable determination letter issued to an adopting employer of a preapproved plan will provide reliance up to and including the last day of the six-year cycle following the six-year remedial amendment cycle in which the determination letter application was filed. The reliance is conditioned upon the timely adoption of any necessary interim amendments as required by section 5.04 of Rev. Proc. 2007-44. Also see Rev. Proc. 2005-16, 2005-10 I.R.B. 674 sections 5.01 and 15.05 and Announcement 2005-37, 2005-21 I.R.B. 1096.

Plan Must Qualify in Operation

Generally, a plan qualifies in operation if it continues to satisfy the coverage and nondiscrimination requirements and is maintained according to the terms on which the favorable determination letter was issued. Changes in facts and other basis on which the determination letter was issued may mean that the determination letter may no longer be relied upon.

Some examples of the effect of a plan's operation on a favorable determination are:

Not meeting nondiscrimination in amount requirement. If the determination letter application requested a determination that the plan satisfies the nondiscrimination in amount requirement of section 1.401(a)(4)-1(b)(2) of the regulations on the basis of a design-based safe harbor, the plan will generally continue to satisfy this requirement in operation if the plan is maintained according to its terms. If the determination letter application requested a determination that the plan satisfies the nondiscrimination in amount requirement on the basis of a nondesign-based safe harbor or a general test, and the plan subsequently fails to meet this requirement in operation, the favorable determination letter may no longer be relied upon with respect to this requirement.

Not meeting minimum coverage requirements. If the determination letter application includes a request for a determination regarding the ratio percentage test of IRC section 410(b) and the plan subsequently fails to satisfy the ratio percentage test in operation, the letter may no longer be relied upon with respect to the coverage requirements. Likewise, if the determination letter application requests a determination regarding the average benefit test, the letter may no longer be relied on with respect to the coverage requirements once the plan fails to satisfy the average benefit test in operation.

Changes in testing methods. If the determination letter is based in part on a demonstration that a coverage or nondiscrimination requirement is satisfied, and, in the operation of the plan, the method used to test that this requirement continues to be satisfied is changed (or is required to be changed because the facts have changed) from the method employed in the demonstration, the letter may no longer be relied upon with respect to this requirement.

Contributions or benefits in excess of the limitations under IRC section 415. A retirement plan may not provide retirement benefits or, in the case of a defined contribution plan, contributions and other additions, that exceed the limitations specified in IRC section 415. Your plan contains provisions designed to provide benefits within these limitations. Please become familiar with these limitations, for your plan will be disqualified if these limitations are exceeded.

Top-heavy minimums. If this plan primarily benefits employees who are key employees, it may be a top-heavy plan and must provide certain minimum benefits and vesting for non-key employees. If your plan provides the accelerated benefits and vesting only for years during which the plan is top-heavy, failure to identify such years and to provide the accelerated vesting and benefits will disqualify the plan.

Actual deferral percentage or contribution percentage tests. If this plan provides for cash or deferred arrangements, employer matching contributions, or employee contributions, the determination letter does not consider whether special discrimination tests described in IRC section 401(k)(3) or 401(m)(2) have been satisfied in operation. However, the letter considers whether the terms of the plan satisfy the section 401(k)(3) or 401(m)(2) requirements specified in IRC section 401(k)(3) or 401(m)(2).

Reporting Requirements

Most plan administrators or employers who maintain an employee benefit plan must file an annual return/report. The following is a general discussion of the forms to be used for this purpose. See the instructions to each form for specific information:

Form 5500-EZ Annual Return of One-Participant (Owners and their Spouses) Pension Benefit Plans - generally for a "one-participant" plan, which is a plan that covers only:

(1) an individual, or an individual and his or her spouse who wholly own a business, whether incorporated or not; or
(2) partner(s) in a partnership or the partner(s) and the partner's spouse.

If Form 5500-EZ cannot be used, the one-participant plan should use Form 5500, Annual Return/Report of Employee Benefit Plan.

See Instructions to Form 5500-EZ for specific rules.

Note: A "one-participant" plan that has no more than $250,000 in assets at the end of the plan year is not required to file a return. However, Form 5500-EZ must be filed for any subsequent year in which plan assets exceed $250,000. If two or more one-participant plans have more than $250,000 in assets, a separate Form 5500-EZ must be filed for each plan.

Instead of filing the paper Form 5500-EZ, plan administrators or employers may choose to file electronically using Form 5500-SF. Detailed information for electronic filing is available in the 2009 Instructions for Form 5500-EZ or at www.efast.dol.gov.

A "Final" Form 5500-EZ must be filed if the plan is terminated.

Form 5500, Annual Return/Report of Employee Benefit Plan – for a pension benefit plan that is not eligible to file Form 5500-EZ.

Note. Keogh (H.R. 10) plans having over $250,000 in assets are required to file an annual return even if the only participants are owner-employees. The term "owner- employee" includes a partner who owns more than 10% interest in either the capital or profits of the partnership. This applies to both defined contribution and defined benefit plans.

Form 5330 for prohibited transactions. Transactions between a plan and someone having a relationship to the plan (disqualified person) are prohibited, unless specifically exempted from this requirement. A few examples are loans, sales and exchanges of property, leasing of property, furnishing goods or services, and use of plan assets by the disqualified person. Disqualified persons who engage in a prohibited transaction for which there is no exception must file Form 5330 by the last day of the seventh month after the end of the tax year of the disqualified person.

Form 5330 for tax on nondeductible employer contributions to qualified plans - If contributions are made to this plan in excess of the amount deductible, a tax may be imposed upon the excess contribution. Form 5330 must be filed by the last day of the seventh month after the end of the employer's tax year.

Form 5330 for tax on excess contributions to cash or deferred arrangements or excess employee contributions or employer matching contributions - If a plan includes a cash or deferred arrangement (IRC section 401(k)) or provides for employee contributions or employer matching contributions (IRC section 401(m)), then excess contributions that would cause the plan to fail the actual deferral percentage or the actual contribution percentage test are subject to a tax unless the excess is eliminated within 2½ months after the end of the plan year. Form 5330 must be filed by the due date of the employer's tax return for the plan year in which the tax was incurred.

Form 5330 for tax on reversions of plan assets - Under IRC section 4980, a tax is payable on the amount of almost any employer reversion of plan assets. Form 5330 must be filed by the last day of the month following the month in which the reversion occurred.

Form 5310-A for certain transactions - Under IRC section 6058(b), an actuarial statement is required at least 30 days before a merger, consolidation, or transfer (including spin-off) of assets to another plan. This statement is required for all plans. However, penalties for non-filing will not apply to defined contribution plans for which:

(1) The sum of the account balances in each plan equals the fair market value of all plan assets,
(2) The assets of each plan are combined to form the assets of the plan as merged,
(3) Immediately after a merger, the account balance of each participant is equal to the sum of the account balances of the participant immediately before the merger, and
(4) The plans must not have an unamortized waiver or unallocated suspense account.

Penalties will also not apply if the assets transferred are less than three percent of the assets of the plan involved in the transfer (spinoff), and the transaction is not one of a series of two or more transfers (spinoff transactions) that are, in substance, one transaction.

The purpose of the above discussions is to illustrate some of the principal filing requirements that apply to pension plans. This is not an exclusive listing of all returns and schedules that must be filed.

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **January 16, 2014**

SUBJ: **2013 CAFR and PPCC Award**

Enclosed is the 2013 NDRIO Comprehensive Annual Financial Report (CAFR) which provides a detailed look at investment, financial, actuarial, and statistical information about the TFFR and SIB programs. The CAFR is also posted to the NDRIO website at http://www.nd.gov/rio/SIB/Publications/CAFR/default.htm.

Please notice that the Government Finance Officers Association (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for 15 years (page 13). In order to receive the award, the CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. The 2013 report has been submitted to GFOA for review, and we expect it to meet the requirements for receiving the award again this year.

Also, TFFR has once again received the 2013 Public Pension Standards Award for Funding and Administration from the Public Pension Coordinating Council (PPCC) (page 14). To receive the award, the retirement system must certify that it meets specific standards for a comprehensive benefit program, actuarial valuations, financial reporting, investments, communications to members, and funding adequacy. TFFR has received a PPCC Award since 1992.

If you have any questions about the information included in the CAFR, please let us know.

Enclosure

MEMORANDUM

TO: TFFR Board

FROM: Fay Kopp

DATE: January 16, 2014

SUBJ: Trustee Education

Here are some dates and information for various 2014 pension trustee educational opportunities. If you are interested in attending any of these, or other conferences or training sessions, please contact Fay or Bonnie.

- **National Council on Teacher Retirement (NCTR)**

Trustee Workshop	July 20-23, 2014	Berkeley, CA (tentative)
Annual Conference	Oct. 11-15, 2014	Indianapolis, IN

  *Registration material is not yet available, but will be sent to you.

- **Callan College**

Intro to Investments	Apr. 23-24, 2014	San Francisco, CA
	Oct. 28-29, 2014	San Francisco, CA
Standard Session	July 15-16, 2014	Chicago, IL

  *See attached summary of programs

- **International Foundation of Employee Benefit Plans (IFEBP)**

  *See attached 2014 public sector training schedule.

Enclosures

NATIONAL COUNCIL ON TEACHER RETIREMENT
Supporting Retirement Security for America's Teachers

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Annual Conference

MARK YOUR CALENDAR!

92nd Annual Conference October 11-15

NCTR looks forward to bringing our membership together once again at the JW Marriott in Indianapolis, IN. **View more information**

Sponsorship Opportunities

Interested in sponsoring NCTR's 92nd Annual Conference? Email us at contactnctr@nctr.org for details!

The 91st Annual Conference was a huge success! View more...

Future Conferences

2015:

October 10-14
Hilton La Jolla Torrey Pines
La Jolla, CA

2016:

October 8-12
Omni Providence Hotel
Providence, RI

2017:

October 7-12
Loews Ventana Canyon
Tucson, AZ

Archives

2013 (Washington, DC)
2012 (Tucson, AZ)
2011 (Baltimore, MD)
2010 (San Antonio, TX)
2009 (Indian Wells, CA)
2008 (Washington, DC)
2007 (Scottsdale, AZ)
2006 (Austin, TX)
2005 (Tampa, FL)
2004 (Portland, OR)

9370 Studio Court, Suite 100E, Elk Grove, CA 95758
PH 916-897-9139| FAX 916-897-9315

The Center for Investment Training, more widely known as the "Callan College," was established in 1994 to provide relevant and practical educational opportunities to all professionals engaged in the investment decision-making process.

"Callan College"
2014 Schedule

Session for Investment Managers
March 25-27, 2014
Sept 30 - Oct 2, 2014
Boston, MA

Standard Session
July 15-16, 2014
Chicago, IL

Introduction to Investments
April 23-24, 2014
October 28-29, 2014
San Francisco, CA

Contact Us

For more information on the "Callan College," contact Kathleen Cunnie at cunnie@callan.com.

"Callan College"

This educational forum offers basic-to-intermediate level instruction on all components of the investment management process. Continuing education credits are available for The CFA Institute and IBCFP.

The "Callan College" courses cover topics that are key to understanding your responsibilities, the roles of everyone involved in this process, how the process works, and how to incorporate these strategies and concepts into an investment program. Listed below are the different types of sessions Callan offers.

"Callan College" – An Introduction to Investments

This one and one half day session is designed for individuals who have less than two years' experience with institutional asset management oversight and/or support responsibilities. The program will familiarize fund sponsor trustees, staff, and asset management advisors with basic investment theory, terminology, and practices. Participants in the introductory session will gain a basic understanding of the different types of institutional funds, including a description of their objectives and investment program structures.

"Callan College" – Standard Session

This is a two day session that provides attendees with a complete and thorough overview of prudent investment practices for both trustee-directed and participant-directed funds. This session is beneficial to anyone involved in the investment management process, including: trustees and staff members of public, endowment & foundation, corporate, and Taft-Hartley retirement funds (defined benefit and/or defined contribution); representatives of family trusts; and investment management professionals and staff involved in client service, business development, consultant relations, and portfolio management.

"Callan College" for Investment Managers

This two and a half day program for investment managers will focus on the asset management process and improving communication skills and will cover topics critical to investment managers, including best practices in communicating with clients. You will be armed with more effective communication skills and given insights into those industry best practices to embrace and the potential pitfalls to avoid. This course is beneficial to anyone involved in the business of investment management, including: client service professionals, business development officers, consultant relations professionals, portfolio managers, RFP writers, and marketing professionals.

Customized Sessions

A unique feature of the "Callan College" is its ability to educate on a specialized level through its customized sessions. Whether you are a plan sponsor or you provide services to institutional tax-exempt plans, we are equipped to tailor the curriculum to meet the training and educational needs of your organization and bring the program to your venue. For more information on a customized "Callan College" for your organization, please send an email to Kathleen Cunnie at cunnie@callan.com.

Suggested Training Path and Calendar for Public Sector Trustees and Staff

Save this guide for reference as you select the programs to attend in 2014 and beyond.

www.ifebp.org/educationpath

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OF EMPLOYEE BENEFIT PLANS
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	PENSION TRUSTEE	HEALTH TRUSTEE
Basic (1-2 Years)	**Conference** Benefits Conference for Public Employees	**Conference** Benefits Conference for Public Employees
	Designation and Certificate Courses CAPPP® Part I—Pensions Portfolio Concepts and Management (Wharton)	**Designation and Certificate Courses** CAPPP® Part I—Health Portfolio Concepts and Management (Wharton)
	E-Learning Courses Overview of Retirement Plans Investment Basics	**E-Learning Courses** Introduction to Health Care and Group Benefit Plans Health Care Reform
	Book *Benefits and Compensation Glossary*	**Books** *Benefits and Compensation Glossary* *Wellness Programs and Value-Based Health Care* *Health Insurance Answer Book*
Intermediate (3-4 Years)	**Conferences** Benefits Conference for Public Employees Investments Institute	**Conferences** Benefits Conference for Public Employees Health Care Management Conference
	Designation and Certificate Courses CAPPP® Part II—Pensions Certificate in Retirement Plans (Certificate Series) Advanced Investments Management (Wharton)	**Designation and Certificate Courses** CAPPP® Part II—Health Certificate in Health Care Plans (Certificate Series)
	E-Learning Courses Defined Benefit Plans Defined Contribution Plans	**E-Learning Courses** Wellness and Disease Management Short- and Long-Term Disability
Advanced (5+ Years)	**Conferences** Benefits Conference for Public Employees Investments Institute	**Conferences** Benefits Conference for Public Employees Health Care Management Conference
	Designation and Certificate Courses Hedge Funds, Real Estate and Other Alternative Investments (Wharton) International Investing and Emerging Markets (Wharton) Retirement Plans Associate (RPA) Designation Certified Employee Benefit Specialist (CEBS) Designation	**Designation Course** Certified Employee Benefit Specialist (CEBS) Designation

ADMINISTRATIVE STAFF

Conference
Benefits Conference for Public Employees

Designation and Certificate Courses
Certificate in Public Sector Benefits Administration (Certificate Series)
Certificate in Retirement Plans (Certificate Series)
Certificate in Health Care Plans (Certificate Series)

E-Learning Courses
Overview of Retirement Plans
Introduction to Health Care and Group Benefit Plans
Introduction to Compensation

Book
Benefits and Compensation Glossary

Conferences
Benefits Conference for Public Employees
Benefit Communication and Technology Institute (2014)

Designation and Certificate Courses
Group Benefits Associate (GBA) Designation
Compensation Management Specialist (CMS) Designation

E-Learning Courses
Investment Basics
Family and Medical Leave Act (FMLA)
HIPAA Security
HIPAA Privacy

Conferences
Benefits Conference for Public Employees
Health Care Management Conference
Investments Institute

Designation and Certificate Courses
Group Benefits Associate (GBA) Designation
Compensation Management Specialist (CMS) Designation
Certified Employee Benefit Specialist (CEBS) Designation

Plus ONE or MORE of the following comprehensive or specialty offerings each year.

COMPREHENSIVE AND SPECIALTY EDUCATIONAL OPTIONS

Comprehensive Conference
Annual Employee Benefits Conference

Specialty Conferences
Washington Legislative Update
Benefit Communication and Technology Institute* (2014)

Specialty Designations and Certificate Courses
Certificate in Benefits and Compensation Management (Certificate Series)
Retirement Plans Associate (RPA) Designation
Compensation Management Specialist (CMS) Designation
Group Benefits Associate (GBA) Designation
Certified Employee Benefit Specialist (CEBS) Designation

Specialty E-Learning Courses
COBRA
Family and Medical Leave Act (FMLA)
Fiduciary Responsibility
Health Care Reform
HIPAA Privacy
HIPAA Security
HSAs/HRAs
Introduction to Compensation
Life and Accidental Death and Dismemberment
Short- and Long-Term Disability
The Americans with Disabilities Act (ADA)

Specialty Books
Dental Benefits: A Guide to Managed Plans
The New Healthcare Reform Law: What Employers Need to Know
Pharmacy Benefits: Plan Design and Management
Ready or Not: Your Retirement Planning Guide
Your Pension and Your Spouse—The Joint and Survivor Dilemma

Foundation Web Pages
ACA Central—www.ifebp.org/ACA
Value-Based Health Care—www.ifebp.org/VBHC
Retirement Security—www.ifebp.org/retirementsecurity

Webcasts
New webcasts are typically offered twice a month for timely updates on emerging trends and issues in a range of topic areas that include health care, retirement, legal and legislative, wellness and general human resources. Visit www.ifebp.org/webcasts for list of upcoming live webcasts.

ACA University
A comprehensive, interactive and continually updated source to help members to react quickly to Affordable Care Act (ACA) regulations and their impact on the health care landscape. Visit www.ifebp.org/acau

*Program offered every other year

International Foundation OF EMPLOYEE BENEFIT PLANS
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2014 Public Sector Program Schedule

Date	Program	Location
February 15-16	Administrators Masters Program (AMP®) | www.**ifebp.org**/amp	Lake Buena Vista (Orlando), Florida
February 24-March 1	Certificate Series | www.**ifebp.org**/certificateseries	San Jose, California
March 3-5	Investments Institute www.**ifebp.org**/investments	Clearwater, Florida
April 7-9	Health Care Management Conference www.**ifebp.org**/healthcare	Lake Buena Vista (Orlando), Florida
May 5-6	Washington Legislative Update | www.**ifebp.org**/washington	Washington, D.C.
May 5-8	Portfolio Concepts and Management | www.**ifebp.org**/wharton	Philadelphia, Pennsylvania
June 3-4	Certificate of Achievement in Public Plan Policy (CAPPP®) Pensions and Health Part I www.**ifebp.org**/cappp	San Jose, California
June 5-6	Certificate of Achievement in Public Plan Policy (CAPPP®) Pensions and Health Part II www.**ifebp.org/**cappp	San Jose, California
July 14-15	Benefit Communication and Technology Institute www.**ifebp.org**/benefitcommunication	San Jose, California
July 28-30	International Investing and Emerging Markets www.**ifebp.org**/wharton	San Francisco, California
July 21-31	Certificate Series | www.**ifebp.org**/certificateseries	Brookfield, Wisconsin
September 15-16	Public Employee Policy Forum www.**ifebp.org**/publicemployee	Washington, D.C.
October 11-12	Administrators Masters Program (AMP®) www.**ifebp.org**/amp	Boston, Massachusetts
October 11-12	Trustees Masters Program (TMP®) www.**ifebp.org**/tmp	Boston, Massachusetts
October 11-12	Certificate of Achievement in Public Plan Policy (CAPPP®) Pensions and Health Part II www.**ifebp.org**/cappp	Boston, Massachusetts
October 12	TMP Advanced Leadership Summit www.**ifebp.org**/tmpsummit	Boston, Massachusetts
October 12-15	60th Annual Employee Benefits Conference www.**ifebp.org**/usannual	Boston, Massachusetts
October 27-November 1	Certificate Series | www.**ifebp.org/**certificateseries	Providence, Rhode Island

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12.5M-813

Wyoming government employees may pay more for retirement

OCTOBER 26, 2013 6:00 PM • BY JOAN BARRON STAR-TRIBUNE CAPITAL BUREAU

CHEYENNE -- State government workers may see their retirement contributions take another small jump next year, but they are hoping a pay raise will soften the impact on their paychecks.

Lawmakers during the 2013 session approved retirement contribution rate increases to the plans for public employees, state highway patrolmen, game and fish wardens, criminal investigators and paid firefighters.

Employee contributions to the public employee plan — called the "big plan" because it covers thousands of executive branch, university and school district employees — increased by 1 percent, split between the employer and employee and phased in.

The employee contribution rate for the big plan increased this month from 7 percent to 7.5 percent. In September 2014, the employer contribution rate will increase from 7.12 percent to 7.62 percent under the 2013 law.

A draft bill to be considered this week in Casper by the Joint Appropriations Committee would increase employee contributions to the big plan by another 1 percent.

It would proportionally increase employee contributions to other plans.

Ruth Ryerson, the new director of the Wyoming Retirement System, said the retirement board recommended the slight contribution increases to keep the plans healthy.

Factors driving that decision were a reduction in the actuarial-assumed investment return from 8 percent to 7.74 percent and recognition of the fact that people are living longer, she said.

"It doesn't look as healthy as it did last year, but that's due to the change in assumptions," Ryerson said in an interview last month. She said she and the board will be working with the Joint Appropriations Committee on the bill.

Gov. Matt Mead has said he will push for pay raises for executive branch and university employees in the budget session starting in February.

Executive branch employees have not received a raise since 2008, and the turnover rate is close to 15 percent.

The Legislature last winter rejected Mead's proposal for an $11 million pay package for executive branch, university, community college and judiciary nonjudge employees. The lawmakers instead approved a one-time employee retention payment of up to 1 percent.

Meanwhile, some city and county government employees were getting raises of 3 and 4 percent.

The Wyoming Public Employees Association has made pay raises the top priority for the budget session next year.

Betty Jo Beardsley, the executive director, said the new bill is identical to the one passed last winter.

Since the last raise, in 2008, employee take-home pay has dropped by 3.8 percent because of retirement contribution increases and the reversal of a 2 percent payroll tax cut. "By the time we hit next year, it will be up around 4 percent," Beardsley said.

In the big plan, the employer can decide how much to contribute to employee retirement. Some school districts are paying 100 percent of their employees' retirement contributions.

Beardsley said her organization agrees with the board's policy to be proactive to avoid a big increase.

First-year University of Wyoming President Bob Sternberg said he wants a 4 percent pay increase for university employees.

"I don't want to put a figure on it right now," Beardsley said. "Any increase in pay will help."

The amount also will depend on new revenue projections.

Perhaps the employees can get part of the raise in the budget session and more in the general session, she said.

Beardsley said she will meet with Mead to talk about raises.

Lawmakers study the costs of changes to state's pension plans

By: MaryJo Webster, St. Paul Pioneer Press
Published November 10, 2013, 12:00 AM

Would it be financially feasible for the state of Minnesota to scrap its existing guaranteed retirement benefit and instead offer a 401(k)-like plan for public employees?

That seems to be the key question vexing lawmakers on the state's Legislative Commission on Pensions and Retirement after testimony about alternative design options this week.

The answer is not clear-cut. It depends on an array of factors, including this key one: Would the state pay off the unfunded liability in the short term or the long term?

The commission chairwoman, Sen. Sandy Pappas, DFL-St. Paul, included the topic on this month's pension commission agenda because several newer members have been pushing for a debate about the idea of overhauling the state's public pension system.

Those members say they want to move away from the current system because it puts taxpayers on the hook when investment returns or plan assumptions go wrong and the fund doesn't have enough assets to cover promised benefits.

Opponents to altering the system say changes made the past four years — benefit reductions, contribution increases and cost-of-living freezes for some retirees — eventually will close the funding gap, currently at about $13 billion, if given time to take full effect.

Kim Crockett, the executive director of the Center for the American Experiment and a proponent for overhauling the pension system, said she's glad the commission is at least talking about structural change and other big issues, including whether retiree cost-of-living adjustments are adequate.

“The reason why they're studying the bigger issues is to educate the pension commission members,” Crockett said. “But I don't think this agenda is pointing toward a legislative plan for 2014.”
Last week, commission members heard about the various options for alternative designs, including findings from a legislatively directed study that Minnesota's three statewide pension systems conducted in 2010.

One option would be to switch to a defined-contribution plan, where workers would have something similar to a 401(k). The contribution made by the employer would be predetermined, but the retirement benefit would be solely dependent on what has accumulated, through contributions and investment returns, over the course of the worker's career.

Another option would be a hybrid model. About 16 states have implemented some version of a hybrid model in recent years. Typically, these include a small defined-benefit pension — which provides a guaranteed lifetime benefit — plus a defined-contribution plan.

Rep. Tim O'Driscoll, R-Sartell, suggested to his fellow commission members that they “think broader” and look to see what options might be available in the private sector, including defined-contribution plans and disability insurance.

“We need to look at the fact that many of these pension plans were put into place in the 1940s and 1950s when life expectancy was lower,” O'Driscoll said. “In those 50 or 60 years, there have been some advances in the private sector that we need to think about.”

Moving to an alternative design would require closing the existing plans, and that's where the issue of “transition costs” comes into play.

Here's how it usually works: New hires would be put into the new plan, but existing workers would remain in the old plan. Within about 30 years, everyone in the old plan will be retired, and there wouldn't be any new contributions. As a result, the assets will shrink, and the investment mix would need to be more conservative, yielding lower returns.

This makes it impossible for the closed fund to fully pay its unfunded liability using the existing method.

Currently, Minnesota's plans estimate how much is needed to pay off the liability by a target date — typically 20 or 30 years — and it is “amortized” across those years as a percentage of the total pay of plan members still working. The payments tend to grow over time — known as back-loading — since payroll typically rises each year. This approach also counts on healthier-than-expected investment returns to reduce the burden before the target date.

Liability grows for state's public employee retirement plan

By Sean Whaley November 13, 2013 - 5:40pm

CARSON CITY— Nevada's public employee retirement plan saw its overall long-term liability grow to $12.9 billion in Fiscal Year 2013 from $11.2 billion the year before, a new report shows.

The percentage of long-term funding also declined, from 71 percent in Fiscal Year 2012 to 69.3 percent in the year that ended June 30, the actuarial valuation report from Segal Consulting shows. The plan covering about 98,512 active state and local government workers and 49,546 retirees or their beneficiaries was 77.2 percent fully funded in 2007, and hit a high of 85 percent full funding in 2000.

The growing long-term liability could translate to higher employee contribution rates in the next legislative session to keep the retirement fund healthy. Higher rates mean more taxpayer money being spent on the retirement plan and less funding for other needs.

While the liabilities of the Nevada Public Employees Retirement System grew over the past year, so did the assets, climbing to $29.1 billion in Fiscal Year 2013 from $27.4 billion in Fiscal Year 2012, the report shows.

The actuarial evaluation report was presented at the same meeting where the board heard a separate review from an independent consultant, AonHewitt, that indicates the PERS plan will be fully funded over the next 30 years if all the assumptions, including an anticipated 8 percent rate of return on investments, are met.

The AonHewitt report, which compared the Public Employees' Retirement System to comparable public pension plans around the country, also found that the plan's actuarial funding policy is "best-in-class."

But Assemblyman Randy Kirner, R-Reno, who attended the PERS board meeting, said the actuarial valuation report suggests that the financial hole for the plan is growing. Kirner has been an advocate for major changes to the plan to lessen the long-term taxpayer risk of paying for the public employee pension benefits.

Kirner said the AonHewitt analysis compared Nevada's plan to other public pension plans. What is needed is a review of whether the assumptions for the plan, such as the 8 percent rate of return on investments, are valid, he said.

The board overseeing the massive CalPERS plan in 2012 reduced its estimated rate of return to 7.5 percent from 7.75 percent, he said.

The lower the rate of return for a public pension plan, the bigger the long-term liability becomes, requiring higher contribution rates.

Mark Vincent, chairman of the PERS board and the chief financial officer for the city of Las Vegas, said the biggest factor in the increasing liability is a lack of growth in the public employee job sector.

“Payroll is not hitting what we assumed it would hit based upon prior studies because employment is depressed in the public sector,” he said.

If that situation continues, the PERS board will respond and adjust the assumptions, Vincent said.“We’re not in distress,” he said.

PERS files are confidential, court rules

Individual files of people in the Public Employee Retirement System are confidential, the Nevada Supreme Court declared Thursday, overturning a district court ruling.

The demand for individual records and what those retirees get from PERS was filed in 2011 by the Reno Gazette-Journal, which argued the public’s right to know outweighed any statute making them confidential. Carson District Judge Todd Russell agreed and ordered the records released.

In a unanimous opinion, the Supreme Court wrote that state law specifically makes those individual files confidential. But the court ruled that the “scope of confidentiality does not extend to all information by virtue of it being contained in individuals’ files.”

The justices wrote that when the information is contained in administrative reports and other media separate from the individual files, that information is public.

The statute, they said, “only protects as confidential the individuals’ files held by PERS, not all information contained in separate media that also happens to be contained in individuals’ files.”

The opinion also clarifies that, although information may be public, the law does not impose a duty on an agency to create new documents or customized reports by searching for and compiling information from individuals’ files and other records.

Colorado PERA lowers investment expectation to 7.5 percent return

By Jennifer Brown, The Denver Post

The board that oversees Colorado's pension fund for state employees narrowly voted Friday to lower its expectations on investments, the latest among many states reigning in long-term stock market assumptions.

Colorado's Public Employees' Retirement Association voted 8-7 to lower its expected rate of return on investments to 7.5 percent, down from 8 percent.

State Treasurer Walker Stapleton has urged the board for three years to lower its rate of return, warning of an eventual collapse and bailout of the pension system for 300,000 teachers and state workers.

The fund has $23 billion in unfunded liability — money it owes to current and future retirees over the next 30 years but does not have in its account today. Friday's vote means the pension fund's unfunded liability will increase by about $6 billion to $29 billion, Stapleton estimated.

The state will have to make up the shortfall through increased payments to the fund from school districts, cities and state government, he said.

"In the short term, that's not a good thing," Stapleton said. "But it makes it all the more imperative that we find a way come together ... and commit ourselves to fixing this problem sooner rather than later."

The vote was a shift in philosophy from three years ago, when the board voted 10-5 to keep its rate of return at 8 percent.

The rate is used to predict investment growth over the next 30 years. Numerous economists have suggested a realistic expectation is 6.5 percent to 7.5 percent for state funds nationwide.

Over the last 10 years, PERA's average rate of return has been 8.4 percent. The average from 2001 to 2011 was 3.3 percent. But it was 13 percent in 2012 and 11 percent so far this year.

The state pension fund is now 64 percent funded — meaning that for every dollar in benefits earned, the fund has 64 cents available to pay them today. But the fund has decades to make the payments and counts on future earnings from its investments.

When the fund was healthy, in 2000, it was 105.2 percent funded.

ANALYSIS: State pension accounting can paint differing pictures

By JEFF AMY, Associated Press,November 16, 2013

JACKSON -- Mississippi's public employee pension fund saw its financial position improve last year.

Or it didn't.

It's all in the accounting. And depending on which set of numbers you look at, results for the Public Employees Retirement System are either negative or positive for the 12 months ended June 30.

The negative

Like most pension funds, actuaries smooth out gains and losses over five years, booking 20 percent of the gain each year. Parceling out gains and losses is meant to reduce the volatility of required contribution levels, said PERS Executive Director Pat Robertson.

In the 2012-13 year, the system booked the last of five $1.05 billion losses from the 2008-09 stock market meltdown.

The actuarial value of the main PERS fund went up by about $500 million, to $20.5 billion. But the funding percentage -- the share of the assets needed to cover future obligations -- drifted down to 57.7 percent from 58 percent.

Before now, an increase in the plan's unfunded future liability would have meant an increase in contribution rates, because PERS tried to pay off unfunded debt within 30 years. But the system's board voted in October 2012 to freeze contribution rates at 9 percent of salary for workers and 15.75 percent for state and local governments.

Contribution rates have escalated in recent years, in part because of poor investment returns. Benefit increases also forced governments to pay more, burdening budgets.

The freeze prevented governments from having to increase contributions to 15.83 percent July 1, and up to 16.29 percent in 2014.

So with no increase in contribution rates, the amount of time expected to pay off the $15 billion in unfunded liability expanded to 32.2 years.

The positive

Fund investments gained 13.4 percent in the most recent year. That means the market value, without smoothing for five years, rose to $21.7 billion.

In turn, the funding percent using market value rose to 61 percent.

That may signal that the funding percentage has bottomed out, at least for this economic cycle, and will rise in coming years. Because the fund has reaped investment returns above the planned-for 8 percent in three of the last four years, that means the smoothing mechanism will act as a tail wind for actuarial values in coming years.

That would be a relief to policy makers -- mainly Republicans -- who have fretted over pension costs for 93,000 retirees and 160,000 active employees. The average retiree receives $1,631 a month.

Looking long-term

Recommendations from a 2011 commission appointed by then-Gov. Haley Barbour, including freezing the 3 percent cost-of-living raise for three years, went nowhere. Some are still worried about it, though, including state Sen. Nancy Collins, R-Tupelo. She introduced a bill last year that would have halted PERS' cost-of-living raise in any year when the funding percentage fell below a certain level. Collins pulled back the bill after sharp attacks.

If PERS can make an average of 8 percent a year on its investments, it projects it can increase the funding percentage back to 71 percent by 2030 and to a targeted 80 percent by 2042.

There are headwinds. One is the volatility of the investment market. PERS has seen five of the worst years on record for the fund over the last 15 years. Another is PERS' assumption that average employee pay will go up 4.5 percent a year. Average pay actually fell last year.

Robertson and PERS supporters, though, are focusing on the horizon.

"It's a long-term perspective," Robertson said. "You're not paying these benefits out all at once."

Mixed news on retirement plans: School employee fund OK; plans for judges, State Patrol need help

Published Monday, November 18, 2013 By Martha Stoddard / World-Herald Bureau

Together, they mean the state won't need additional money to keep the plan healthy, according to Pat Beckham, an actuary with Cavanaugh Macdonald Consulting.
But the retirement plans for judges and the State Patrol will need infusions of funds to balance projected assets with projected liabilities.

The judges plan needs another $835,000, while the patrol plan needs about $4.7 million, Beckham said.

She delivered results of the plans' annual actuarial study to a joint meeting of the Nebraska Public Employees Retirement Board and the Nebraska Investment Council.
State Sen. Jeremy Nordquist of Omaha, chairman of the Public Employees Retirement Systems Committee, said he was pleased with the new figures for the school plan.
“It looks like the major reforms we passed last year put us on the pathway to full health,” he said. “That's a positive outcome.”

The changes included reducing the retirement benefits for teachers and other school employees hired July 1 or later.

They also included making what had been temporarily higher contribution rates into permanent ones.

Nordquist said lawmakers worked with teachers, school administrators and other interested parties to agree on the changes needed.

“It really is a great example of how we can do things in Nebraska,” he said.

With the changes, and if all assumptions are met, Beckham said the school employees retirement plan is on track to become fully funded by 2033.

The other two plans would reach full funding in 30 years, but only if the state continues to add money each year beyond what current law requires.

Declining revenue from court fees is a concern for the judges plan, she said. The patrol plan has fewer people contributing to the retirement benefits.

Nordquist said he and his staff are looking at ways to improve the health of those two plans.

He said they are working with the judges to figure out why the court fee revenue has been going down. Revenue from the $6 fee that supports judges' retirement dropped from $3.4 million in 2011-12 to $3.2 million last year.

Nordquist said he and his staff have been looking at several possibilities for the patrol plan but are holding off on them while a lawsuit filed by the troopers union is pending.

The federal lawsuit alleges that the increases in employee retirement contributions were never agreed to in their union contract, which makes them unconstitutional. The suit was filed one year ago.

Beckham noted that the current fiscal year is the last one in which retirement plans will have to account for losses from the 2008 recession.

Proposal would not fix all Pa. pension problems

November 19, 2013

The Pennsylvania Legislature is considering a new public-sector pension proposal that offers up some ideas worth exploring but is flawed at its heart— costing taxpayers more while deeply cutting retirement benefits for teachers, nurses and other public employees.

The plan, advanced by state Rep. Glen Grell, R-Cumberland, recognizes the need for an alternative to proposals introduced by Gov. Tom Corbett and state Sen. Patrick Browne, R-Lehigh, that put new public employees into 401(k)-type individual accounts. The Legislature abandoned this approach in June after actuaries confirmed what the Keystone Research Center said months earlier: transitioning to a 401(k)-type plan for public employees will dig a deeper pension hole for taxpayers — $40 billion deeper.

Shifting new employees out of existing pensions will starve these plans of resources needed to invest and return them to financial health. With only retirees and current employees in the existing pension plans, remaining members contribute less and less over time while drawing down the benefits they have earned. The plans could no longer invest for the long term and earnings would fall, paying for less of employees' pensions so taxpayers would pay more.

Unfortunately, Rep. Grell's alternative also has some flaws. Its most problematic aspect is a cash-balance pension for future public employees that reduces retirement benefits but could still costs taxpayers in the long run.

Some of the Grell plan's other ideas have merit. His best idea is for the state to buy down pension debt by up to $9 billion using low-interest bonds. This injection would help offset a decade of low state pension contributions and save taxpayers as long as pension fund investment returns exceed bond interest rates, which they should.

Rep. Grell also wants to offer current employees a small financial incentive in exchange for "voluntary" pension reductions. These reductions have to be "voluntary" because the state constitution blocks unilateral pension cuts for current workers. In press reports, the Corbett administration suggests Rep. Grell's proposed voluntary reductions from current employees are naive, but they deserve a closer look.

Lawmakers should reject Rep. Grell's cash-balance proposal. For new employees, this would eliminate defined-benefit pensions based on years of service. Instead, employees would contribute 7 percent of their salary into an individual account with employers contributing (on paper) at least 4 percent. After retiring, each employee's account would be converted to an annuity that pays a pension benefit until death.

Actuarial studies suggest that Rep. Grell's plan would slash benefits by a fifth on average — and by well over half for career employees.

The reason benefits fall is straightforward: If pension fund investments earn more than the guaranteed 4 percent return, a portion of those earnings will no longer go to employee retirement benefits. Instead, the commonwealth will skim off those funds to pay down pension debt, and employees' pension checks will shrink. Clever. But why should future public employees pay down a pension debt they did not create?

Worse, some actuaries expect cash-balance plan managers to invest conservatively, with an eye to earning only the guaranteed 4 percent return. As with the governor's plan, a drop in investment returns will dig a deeper pension hole, costing taxpayers down the road.

In fairness to Rep. Grell, he and others face a big challenge in trying to assemble a pension-reform package that does better than Pennsylvania's 2010 reforms. Those reforms reduced the taxpayer costs of future pensions to just 3 percent of salary, while employees still contribute 7 percent of every paycheck.

The basic structure of Pennsylvania's current pensions is also cost-effective, combining low operating costs and high returns (9 percent for the teachers' pension fund since 1971). This means good benefits at low cost to taxpayers.

Of course, the current pension plans can get into trouble if the state fails to make contributions and financial markets plunge. That's why the 2010 reforms guarded against this combination happening again. New risk-sharing provisions require employees to contribute even more if pension investments underperform, but to get this extra money, the state must also make its contributions.

The sound fundamentals of Pennsylvania's low-cost pension system for new employees are why building on 2010 reforms makes more sense than a radical new pension plan that hurts taxpayers and the retirement security of Pennsylvania's teachers, nurses, firefighters and police officers.

Group formed to fight Okla. pension overhaul

SEAN MURPH, Associated Press, Wednesday, November 20, 2013

OKLAHOMA CITY (AP) — While Republican legislators set the stage Wednesday for an overhaul of Oklahoma's public pension systems, groups representing public school teachers, firefighters and prison workers flexed their political muscle with the formation of a coalition to fight some of the proposed changes.

Members of the newly created "Keep Oklahoma's Promises" met at the Capitol following a joint meeting of a House and Senate committee whose members are expected to consider a plan to shift newly hired state workers from their current traditional pension system to a more 401(k)-style defined contribution plan. Republican leaders also are pushing to consolidate the administration of the state's seven different pension systems.
Both proposals will face stiff opposition from teachers and firefighters, who are a powerful lobbying force at the Capitol, especially during an election year.

"I don't mind not making a lot of money," said Tammy King, a fifth-grade teacher from Moore. "The thing I haven't had to worry about is my retirement ... but now I'm worried about that."

It's not clear at this point exactly which public workers would be included in a shift to a new type of retirement system, although Rep. Randy McDaniel, the co-chairman of the pension panel, said it's not likely to include firefighters, police or other law enforcement.

"There is a strong sentiment not to include hazardous duty employees in proposed changes," said McDaniel, R-Oklahoma City, the point person for pension changes in the House. "Discussions continue about what other systems might be included."

The driving force behind changes to the pension system is the roughly $11.6 billion in unfunded liability of the state's pension systems, most notably an $8.4 billion unfunded liability of the Oklahoma Teachers Retirement System.

Co-chairman Sen. Rick Brinkley said it's also too early to tell whether or not teachers would be included in a pension change.

"I think it's too early to know exactly what we're doing," said Brinkley, R-Owasso. "We're going to have to actually sit down, look at these options, run numbers, see what the implications are."

The head of the Oklahoma Public Employees Association told legislators his group was unwilling to endorse any proposed change to its retirement system without addressing the pay of state workers.

"Pensions or any type of retirement plans based on low salaries are inadequate," said OPEA Director Sterling Zearley.

Zearley said his organization would only support a change to its retirement system if it met several criteria, including a guaranteed rate of return, an option for annuities, and an exemption for hazardous-duty workers like prison guards and parole officers.

Accounting change to foist KPERS debt on locals

Change in national standards means local governments must place liability on balance sheet
Posted: December 3, 2013, By Andy Marso

A change in national accounting standards will take much of an estimated $10 billion in projected pension debts from the state of Kansas and disperse them among the balance sheets of local governments next year.

Alan Conroy, executive director of the Kansas Public Employees Retirement System, explained the Governmental Accounting Standards Board's changes to a legislative committee Tuesday, spurring concerns from legislators about whether local governments are aware of them.

“Do these entities know that this is coming?” Rep. John Barker, R-Abilene, asked.

“We’ve tried to beat that drum," Conroy said. "I'm not sure people get overly excited about GASB, but we’ve tried to make people aware of that.”

“So we’ve beat the drum and hopefully these school districts and municipalities are aware of that,” Barker said.

KPERS currently serves not only state employees but also public workers from about 1,500 cities, counties, school districts and other forms of local government like water districts.

Starting next year, those entities will need to carry the KPERS "unfunded actuarial liability" -- or the amount the system has promised above what it is projected to produce -- for their employees on their own balance sheets rather than the state carrying it all.

"So our balance sheet will actually look better and the locals will look worse," Sen. Jeff Longbine, R-Emporia said.

Longbine said the change could make it more difficult for local governments to borrow money for building projects.

"It could affect the bond ability or bond cost of some of our municipalities," Longbine said.

Barker agreed, saying the change could be a significant burden on locals. He asked how the unfunded liability for each local entity would be calculated.

Conroy said his office was working on a breakdown for each entity based on number of public employees, their terms of service and other factors.

"We'll provide them information that will tell them their share of the unfunded pension liability," Conroy said.

Conroy said the new reporting requirements will apply only to local governments that adhere to the national Generally Accepted Accounting Principles. He estimated that 300 of the 1,500 in Kansas do.

Public pension systems across the country have fallen into debt. The KPERS debt ballooned because of a number of factors, including unfunded liability in the school district system that the state absorbed, underfunding by the state and the market downturn of the Great Recession.

The 2012 Legislature passed a bill to transition new KPERS employees to a cash balance plan starting in 2015. Conroy told the Legislative Post Audit committee Tuesday that the plan is still projected to extinguish the KPERS debt by 2033.

Accounting change shouldn't affect school district's bond rating

December 4, 2013 , By Michael Strand, The Salina Journal, Kan.

A nationwide change in government accounting standards will push some $10 billion in unfunded pension red ink onto the budgets of local governments in Kansas . But the bookkeeping change doesn't alter the fact that the liability is a state debt, and it's unlikely to affect local governments' ability to borrow money.

Alan Conroy , executive director of the Kansas Public Employees Retirement System, outlined the accounting changes Tuesday to Kansas legislators. According to the Topeka Capital-Journal, Conroy told legislators the KPERS office is in the process of calculating how much of the liability will be counted against individual cities, counties, school districts and other local governments, based on factors such as number of employees, years worked and pension terms.

The change is due to a change in accounting standards made by the Governmental Accounting Standards Board , in a 268-page statement that also alters other rules for pension accounting, such as how pension funds can account for projected future contributions and investment returns. "I have no clue" of the amount that would end up on the city's books, said Rod Franz , director of finance for the city of Salina . "Obviously, the liability side of the balance sheet will increase, but I don't know by how much. It all depends on how they would implement that."

Bill Hall , superintendent of the Salina School District , said he was initially concerned when he heard about the change. "My concern was, if we have to carry it on the books it might affect our bond rating," Hall said. The district is planning to put a $110.7 million bond issue to the voters in April. Hall said he talked with Greg Vahrenberg at the Piper Jaffray investment banking firm, which has been working with the district on the planned bond issue. "He feels very good about the bond rating we have right now and doesn't feel this will affect that," Hall said, after talking with Vahrenberg. "He said Moody's and the other ratings firms have built ratings based on knowing this was coming." Bond ratings are an estimate of a government's ability to repay its debt, and a riskier rating means higher interest rates. Hall said that whether the unfunded liability is carried on the books of the state or spread among local units of government, "it's still a state obligation to pay it. ... As long as everyone understands we will have to report it, but it's still a state obligation, this was a state commitment that was made."

Vahrenberg explained that two years ago, "the analysts at Moody's Investors Service started looking at what obligations could be foisted on the districts and other participants in KPERS" and attempted to divide the unfunded liability among them to see how it might affect bond ratings. "With or without that contingent obligation, it hasn't impacted the prior bond rating of the district or other districts in Kansas ," Vahrenberg said. "What Moody's is looking at is the ability to repay the bonds. Now that all districts will be required to show their share of the shortfall, it doesn't really affect their ability to repay. ... It's almost a footnote in the report." –

Detroit’s Bankruptcy Highlights Risks, Benefits of Governmental Pensions

Posted on July 30, 2013 by Carol V. Calhoun, Calhoun Law Group

Detroit’s bankruptcy has brought to the fore issues faced by participants in underfunded public (governmental) retirement plans. As explained in an article on CNN, “Just how generous are Detroit’s pensions?”, Detroit’s pension promises as a whole are in line with pensions provided to nongovernmental workers in the area. Nevertheless, as CNN summarizes the situation, “Detroit’s workers and retirees face big cuts.” Why are public workers so vulnerable to the financial troubles of their employers?

Four issues make public employees more vulnerable than private employees in such a situation:

- Governmental plans, unlike private plans, are not subject to funding requirements under federal law. Consequently, their funded status depends on the requirements of state and local law. And for a locality in financial distress, postponing or avoiding pension payments is often seen as more politically palatable than cutting current programs.
- Governmental defined benefit plans, unlike private defined benefit plans, are not backed by Pension Benefit Guaranty Corporation (“PBGC”) insurance.
- Many public sector workers are not covered by Social Security. Thus, their pensions from the employer may represent the only pensions available to them.
- Public sector salaries overall tend to be lower than private sector ones, even though the average public sector employee is better educated than the average private sector

employee. Thus, public sector employees are less likely to have savings to fall back on if their pensions are unavailable.

On the other hand, public sector plan participants have several protections that private sector ones do not:

- Public sector plans are far more likely than private sector ones to be defined benefit plans. A defined benefit plan promises a particular level of benefits, as opposed to a defined contribution plan such as a 401(k) plan, in which a specified amount of money is put aside, but the ultimate benefit is based on earnings on the amount contributed. This means that public sector employees tend to be more protected from gyrations in the stock market or other investment factors.
- Benefits of public sector workers have strong federal and state Constitutional protections inapplicable to private sector workers. Those protections have already been raised in the Detroit situation.
- Public opinion can at least in some instances prevent governmental employers from cutting pensions. Teachers, police, and firefighters typically enjoy high regard from the public, and pressure may be exerted on politicians not to cut their pensions.

Overall, it is hard to judge whether public or private workers have more pension protections. But cases like Detroit's will prove a test of how committed the public is to protecting those who have served in public employment.

IPERS' chairman says $5.78 billion Iowa public employee pension shortfall is too much

The Iowa Public Employees' Retirement System's Investment Board met Thursday in Des Moines and reviewed an actuarial report that showed the pension fund's finances have improved, but it still faces an unfunded liability of $5.78 billion.

While the outlook has improved for Iowa's largest public employees' pension program, state lawmakers shouldn't be satisfied while the pension fund faces a $5.78 billion long-term shortfall, a top official said Thursday.

"Personally, I think the Legislature should have this on the agenda every year," said Dennis Young, chairman of the Iowa Public Employees' Retirement System's Investment Board. IPERS serves 340,000 current, former and retired employees of state agencies, city and county governments, and school districts.

But Young, the retired executive vice president and CFO of Wells Fargo Financial, said public employees' pension programs need more frequent attention. He commented Thursday after the IPERS board received an annual actuarial report from Patrice Beckham of Cavanaugh Macdonald Consulting LLC of Omaha.

"We are talking about a large unfunded liability and about what most people would argue is a taxpayer liability. It ought to addressed more, although that doesn't mean some action has to be taken," Young said.

In contrast to some past annual reports in which Beckham said she felt like the “Grinch” arriving before Christmas, Beckham offered good news. She said IPERS has seen “a very significant change” toward improved performance.

IPERS ended its fiscal year June 30 with $24.7 billion in assets and with liabilities of $30.49 billion. That’s a funding ratio of 81 percent. In 2012, the Iowa pension system had $23.53 billion in assets with a funding ratio of 79.9 percent.

But Young said he won’t be happy until IPERS is 100 percent funded, although that could take decades to happen based on current financial projections.

One option that can’t be ignored any longer by legislators is providing public employees with a defined contribution retirement program, similar to a 401(k) program for private-sector workers, Young said. This would not promise a specific benefit, but would allow workers to save money in a tax-deferred account. IPERS is a defined benefit program, which means retirees receive a monthly pension check, but such plans have been dropped as too costly by many private employers.

“Somebody is going to have to talk about this, or some combination, and there are lot of options,” Young said.

State Rep. Mary Mascher, D-Iowa City, a nonvoting member of the IPERS board, defended the two-year cycle for the Legislature to make changes in public employees’ pension programs. While lawmakers have the flexibility to consider changes annually, or even during a special session, the current approach is to have pension issues studied by an interim committee to permit an in-depth review, she said. A pension bill is expected to be considered in the 2014 session, she said.

Brad Hudson, a lobbyist for the Iowa State Education Association, which represents teachers, agreed with Mascher. He serves on IPERS’ benefits advisory committee, and he said pension changes approved by lawmakers in 2010 required extensive study and needed two years to be fully implemented. “You just can’t knee-jerk on some of these changes,” Hudson said.

The legislative changes approved in 2010 included flexibility to adjust pension contribution rates for public employees and government employers. Benefit revisions included raising the number of years worked before being vested from four to seven years and basing pension payments on the five highest salary years rather than three. In addition, there is a greater reduction in benefits for early retirement.

State Sen. Jack Whitver, R-Ankeny, who is also a nonvoting board member, said he was pleased with the findings of the actuarial report presented Thursday. But policymakers need to remember that a major factor behind the pension fund’s rebound has been a strong stock market, he added.

Whitver said he believes lawmakers should consider offering a 401(k)-style program for new public employees. Mascher is strongly opposed to changing the current system.

Alaska governor unveils plan to reduce unfunded pension liability

SAN FRANCISCO, Dec 5 (Reuters) - Alaska Governor SeanParnell will urge in his fiscal 2015 budget plan that the state tap $3 billion in one of its savings accounts to pay down a combined $11.9 billion unfunded liability in Alaska's two largest pension funds.

The proposal would also allow Alaska to reduce its annual contribution to its Public Employees' Retirement System and Teachers' Retirement System to $500 million a year from this year's $600 million and raise the funded status of the two pension funds by 10 percent almost immediately, Parnell's office said in a statement released on Thursday.

The Public Employees' Retirement System is currently 63percent funded and the Teachers' Retirement System is currently 53 percent funded.

Parnell's plan comes at a time of increasing concern nationwide about the cost of public pensions and the overall financial health of retirement systems for public-sector employees.

Illinois Governor Pat Quinn, a Democrat, on Thursday signed into law long-awaited reforms to his state's public pension system, which is underfunded by nearly $100 billion.

"Given the significant and escalating resources required to pay down the unfunded pension liability, it is in Alaska's interest to dedicate some of our budget reserves now to paying down our obligation, and move the state's annual payment to a lower, more sustainable and predictable level," Parnell, a Republican, said in a statement.

State's pension systems seeking $2.3 billion in next two-year budget

FRANKFORT — Kentucky lawmakers will be asked for $2.3 billion in public pension contributions this winter as they prepare the state's next two-year budget, potentially diverting more than 10 percent of the budget for the retirement benefits of state workers and school teachers.

The chief pension fund that covers more than 90,600 current and former state workers has $2.6 billion in assets and $11.3 billion in assumed liabilities, making it only 23 percent funded, actuarial advisers told the Kentucky Retirement Systems' board of trustees on Thursday.

That funding level has dropped for years, from 52 percent in 2008 to 27 percent last year. It puts Kentucky at or near the bottom in most state pension rankings.

Pension experts say a funding level of less than 80 percent is problematic because a cash-starved benefits system can't make lucrative long-term investments, and it eventually can't keep mailing out monthly checks without draining money from other public services, such as schools and roads.

The General Assembly has made attempts at "pension reform" — including Senate Bill 2 earlier this year, which reduced benefits for future state workers — but it's extremely difficult to climb out of the hole dug by two decades of underfunding by governors and lawmakers, pension officials said.

As recently as this year, when the pension system said it needed $485 million in contributions, lawmakers cited a tight budget and provided only 57 percent of the requested amount.

Under SB 2, the legislature committed to fully funding the Kentucky Retirement Systems' budget requests, which was revealed Thursday to be more than $1.5 billion for the next two years, to adequately pay the separate pension and insurance funds for state workers and Kentucky State Police.

KRS will have to stand in line: Many public agencies and interest groups say they plan to request more money from the legislature this winter, and the next state budget is not expected to be much larger than its predecessor. But William Thielen, the KRS executive director, said after Thursday's board meeting that he hopes lawmakers will honor their pension commitment.

"It's in writing, but I know the budget is still tight, the economy has not improved as we hoped it would," Thielen said.

In a statement issued later Thursday, the Facebook community Kentucky Government Retirees said its 2,788 members will lobby their lawmakers against "a betrayal of the pension promise."

Apart from KRS, the Kentucky Teachers' Retirement System — which covers about 140,000 current and former school teachers — says it will ask lawmakers for nearly $800 million in the two-year budget.

Compared to the state workers' fund, the $16 billion teachers' fund is in relatively good shape, with a 54 percent funding level. However, under federal accounting rules expected to take effect in 2015, the system will have to recalculate its unfunded liability from $12 billion to $23 billion if there is no plan in place to stabilize the fund, KTRS executive secretary Gary Harbin said.

The $800 million is needed to help stabilize the fund, Harbin said.

"It's going to be a tough request with the budget; we recognize that," he said.

Board OKs increase in taxpayer contributions to Rhode Island pension system

Published: December 18 2013 01:00

The state Retirement Board on Tuesday approved an increase in what taxpayers will have to pay retired state workers and teachers two years from now. But that wasn’t the biggest news.

Perhaps the bigger news, said the consultant who advised the board, was how much more predictable these costs are becoming since implementation of the sweeping pension overhaul law adopted by lawmakers in 2011.

“Clearly this confirms that all the strategies put in place then are working right down the line of what we were expecting, so hopefully that gives everyone a good sense of looking forward,” said Joseph P. Newton, with the firm of Gabriel Roeder Smith & Co.

The overhaul, which state unions are challenging in court, headed off more dramatic increases in required contributions by taxpayers and immediately reduced the fund's "unfunded liability" by about $3 billion. It stands now at $4.54 billion.

On Tuesday, Newton presented what was essentially a progress report on the pension. His "actuarial valuations" are prepared each year to calculate how much money lawmakers must set aside in future years to ensure payment to retirees.

The report calculates, for instances, the value of assets in the pension fund, its unfunded liability, its annual rate of return and the contribution taxpayers must pay to meet their annual required contribution to the defined-benefit portion of retirees' retirement package. (Most state workers and teachers now contribute a set amount — 3.75 percent of their pay.)

In this current fiscal year, which ends June 30, taxpayers are paying about $380 million into the pension system, according to the general treasurer's office. That figure will increase to $404.5 million in fiscal year 2015, which begins next July 1. The taxpayer contribution will increase again to $411.6 million for fiscal year 2016, which begins in July 2015.

It was that fiscal 2016 year cost increase that the board approved Tuesday. It does so in advance to help guide lawmakers who must make sure the money is in the state budget when needed.

Some other findings of Newton's actuarial valuations report: The fund, with a market value of $7.6 billion, had an 11-percent rate of return for the year that ended June 30, 2013 — far better than the 1.4-percent rate of return the previous fiscal year and exceeding the fund's 7.5-percent target. (Nationwide, the median return for public funds with more than $5 billion in assets was 12.4 percent.) But when averaged over the last five years, the rate of return for the Rhode Island fund is 6.17 percent. Over 10 years: 7.24 percent.

Annual cost-of-living adjustments were suspended under the 2011 pension overhaul law until the fund is 80 percent funded. Combined, the state employees and teacher pension plans are 57.3 percent funded. Annual COLAs are currently projected to remain suspended until 2032.

Educators' pension cuts legal, NM Supreme Court Rules

By Dan Boyd / Journal Staff Writer | Fri, Dec 20, 2013

SANTA FE – The New Mexico Supreme Court on Thursday backed the Legislature's ability to trim certain public retirement benefits, rejecting a claim by four retired educators that the benefits represent promised property rights.

Justice Richard Bosson acknowledged the case could affect thousands of public-sector New Mexico retirees, writing the retired educators' petition "casts a long shadow."

The decision was lauded by the sponsor of legislation passed this year and signed into law by Gov. Susana Martinez to keep the Educational Retirement Board afloat.

"If we're going to have a retirement system at all, the Legislature has to be the one to pass laws to run it," said Senate Minority Leader Stuart Ingle, a Portales Republican.

The legislation to shore up the teacher retirement system, which has more than 61,000 active members and covers roughly 40,000 retirees, will trim annual cost-of-living adjustments for current workers and retirees until the pension fund's solvency figures improve. It also requires stricter retirement eligibility for future hires.

The unanimous Supreme Court decision written by Bosson concluded that the COLA received by retired educators as an add-on to their earned retirement, starting at age 65, is not a core benefit.

"We hold, therefore, that in the absence of any contrary indication from our Legislature, any future cost-of-living adjustment to a retirement benefit is merely a year-to-year expectation that, until paid, does not create a property right under the Constitution," Bosson wrote.

The state's teacher retirement system has been grappling with worsening solvency problems caused by market-driven investment losses and a growing number of retirees, among other factors.

ERB Executive Director Jan Goodwin said a decision in favor of the retired educators would have delayed the pension fund's recovery to solvency.

"They clearly said the Legislature has the power to make changes in the COLA, and that was exactly what we were looking for," Goodwin said of the Supreme Court.

She also said the ruling clearly establishes the Legislature's authority to adjust certain retirement benefits. That authority, or lack thereof, had previously been the subject of heated debate between legal experts.

The four retired educators challenging the benefit cuts included Joanna Bartlett, a former University of New Mexico professor, and Lenore Pardee, a former teacher at Del Norte High School in Albuquerque who receives an annual pension of $28,000.

They had asked the Supreme Court to restore the full benefits they would have received had the legislative pension cut not been implemented on July 1.
The attorney for the four retirees did not immediately return telephone calls seeking comment Thursday, but one of the plaintiffs in the case predicted "thousands" of retired teachers would be disappointed with the decision.

A spokesman for Martinez praised Thursday's court ruling."The governor is pleased with the ruling, in that it upholds the bipartisan effort to reform and preserve the state's educator pension system," Martinez spokesman Enrique Knell said.

With this year’s legislation, New Mexico became one of several states to trim public workers’ retirement benefits in an attempt to buoy cash-strapped pension funds. Nationally, a number of other states have faced court challenges filed in response to pension benefit cuts, with mixed outcomes.

In New Mexico, solvency fixes approved this year for both the ERB and the state’s other public retirement system – the Public Employees Retirement Association – included such trims.
If the Supreme Court had not struck down the challenge to the ERB solvency bill, a similar challenge would likely have been brought against the PERA, attorneys had said.

Kansas lawmakers to reopen debate on public pensions

By John Hanna, Associated Press, Published: Thursday, Dec. 26 2013 12:05 p.m.
Moves to close the Kansas public retirement system's long-term funding gap haven't eliminated interest among legislators in creating a 401(k)-style plan for new teachers and government employees.
Republican Gov. Sam Brownback and the GOP-dominated Legislature also can't avoid discussing public pensions during the 2014 session because the state's contributions to teachers' retirement benefits have ballooned. The increases are coloring a debate over education funding.

The effects of the Great Recession continue to hamper the Kansas Public Employees Retirement System because the system averages investment gains and losses over five years to measure its long-term health. Even with major pension system changes in in 2011 and 2012, the gap between anticipated revenues and commitments to employees through 2033 approaches $10.3 billion — 11 percent larger than projected a year ago.

Changes in recent years boosted state contributions to public pensions and even committed profits from state-owned casinos. The state revised benefit plans for existing employees and created a new one for workers hired after 2014 that moves away from traditional plans that guarantee benefits up front, based on an employee's salary and years of service. But the alterations stop short of creating a 401(k)-style plan, in which benefits are tied to investment earnings.

Public employee and retiree groups have argued Kansas had a long-term funding gap because legislators and governors shorted KPERS contributions for years. They've helped block a 401(k)-style plan by convincing enough lawmakers the startup costs would be too formidable.

But Rep. John Rubin, a Shawnee Republican and a member of the House Pensions and Benefits Committee, said under current projections, KPERS assets cover only 56 percent of its long-term obligations. He's drafting a proposal for the next legislative session — which starts Jan. 13 — to create a 401(k)-style plan for employees hired after June 2015. Supporters of such a move argue 401(k) plans are common among private companies because traditional plans can't be sustained.

"I'm terribly concerned that if something isn't done in the near future, the KPERS fund is going to go bankrupt," Rubin said. "It's high time that we face the music."

KPERS Executive Director Alan Conroy said, absent another Great Recession, the state is on track to eliminate the entire long-term funding gap by 2033, even though this year's numbers were significantly worse.

"Most of that was driven was by the last, sort of, bitter pill, from the 2008 investment losses," Conroy said.

Ernie Claudel, a retired public school teacher and administrator from Olathe who's vice chairman of a retirees' coalition, said starting a 401(k)-style plan would be like falling behind on a mortgage but buying a second house. Claudel was elected by KPERS members this year to serve on its Board of Trustees.

"This is an ideological and political debate," said Claudel, who stressed he's not speaking for the KPERS board. "It's not a financial one."

Even some Kansas officials who've advocated for such a plan — or at least a step toward something similar — are wary of making an attempt next year because, as Brownback said during an interview this month, Kansas legislators intend to focus on boosting funding for pensions.

"After having done so much pension reform work, there's a desire to see if what we've done was done right," said Sen. Jeff King, an Independence Republican who helped draft past pension legislation.

Because Kansas has been trying to close the KPERS funding gap, its contributions to pensions have more than doubled over the past decade, from $241 million in the 2005 budget to almost $604 million for the fiscal year beginning July 1.

Report questions state pension funds' investment forecast

By Rick Pearson, Tribune reporter, 3:08 PM CST, December 31, 2013

Amid controversy over a new state law that seeks to rein in Illinois' huge public pension debt, a report issued Tuesday by the state auditor general is questioning the projected investment returns from the state's largest public retirement systems.

Auditor General William Holland issued the 236-page report on behalf of the firm hired as the state's actuary, Cheiron, which urged that state pension systems for teachers outside Chicago, public university employees and state workers all lower their annual estimated rate of return on investments.

The report marked the second year in a row in which the actuarial consulting firm recommended that the three pension systems consider lowering the annual growth rate. None of the boards reduced the rate the last time. Concern over unreasonably high investment expectations has been fueled by the precarious situation for Illinois public pension systems, the worst funded in the nation.

Currently, the Teachers Retirement System, the pension system for teachers outside Chicago, has an investment growth expectation of 8 percent a year, which it changed in June 2012 from 8.5 percent.

The State Universities Retirement System and the State Employees' Retirement System currently have a growth expectation of 7.75 percent annually, both of which were changed in June 2010 from 8.5 percent.

"In light of the evidence Cheiron presented in the individual system's reports, Cheiron urged the boards to lower the interest rate assumption for the upcoming June 30, 2014, actuarial valuation," Holland reported. "If the boards conclude that a reduction is not needed, Cheiron requested that the boards provide substantial justification for maintaining the current interest rate."

Holland said the firm recommended the state employees' and state universities' systems lower their anticipated rate of return to 7.25 percent annually. It said documents provided by those two systems showed a high probability that the 7.75 percent rate would not be met.

As for the Teachers' Retirement System, no specific rate reduction was recommended. But Holland said the system provided an analysis showing anticipated average returns of 8.37 percent over the next 30 years, which was contradicted by the system's own investment consultant.

Officials for the three retirement systems said they would review investment expectations in the spring, particularly in light of the new pension law approved by legislators and signed by Gov. Pat Quinn in early December.

The new law is aimed at closing the state's $100 billion unfunded public pension liability over the next 30 years by curbing retirees' cost-of-living increases, capping the amount of income used to figure pensions and increasing the retirement age for many current workers. The law is estimated to save $160 billion over the next three decades.

But the law is already subject to one lawsuit, filed by the state's retired teachers' association, questioning the constitutionality of the changes. More litigation is expected to be filed by Illinois' major public worker and teachers' unions.

St. Paul and Duluth teacher pension merger with statewide group would be costly

ST. PAUL — A potential consolidation of the St. Paul and Duluth teacher pensions into the statewide Teachers Retirement Association would cost taxpayers more than $61 million annually over 24 years, a study has found.

By: MaryJo Webster , St. Paul Pioneer Press, January 09,2014

The legislatively mandated study, conducted by the three teacher pensions, says state aid would be necessary to pay down the two pension plans' unfunded liabilities so that a merger doesn't harm TRA's financial health.

The Duluth Teachers' Retirement Fund Association is interested in moving forward with consolidation. Such a merger would require about $8.7 million per year, in addition to about $6.5 million in state aid the fund now receives.

But the St. Paul Teachers' Retirement Fund Association's board believes remaining independent would be a more "economically viable approach." The board has a less-expensive plan in place to eliminate its unfunded liability by 2042, said Executive Director Paul Doane. The plan, though, also would require the Legislature to extend the $7 million in annual state aid approved last session. That money is set to expire after two years. Doane noted this is significantly lower than the estimated $46 million needed annually to merge St. Paul into the larger statewide program.

"We have, on paper, a structure and a plan that says, yes we can achieve this without further complications of a merger," Doane said. "If the Legislature still feels they want to put us in (TRA) and pay the bill that is due, that's fine. That's their call, and we'll certainly abide by it."
The St. Paul Teachers' fund does want to ask the Legislature to sign off on a plan to transfer the local pension plan's investments to the State Board of Investment, which manages the statewide pensions' investments.

On Jan. 29, the Legislative Commission on Pensions and Retirement will review and discuss the consolidation study — a first step toward potential legislative action in coming months. Duluth's fund has about 870 active members and 1,400 people receiving benefits. St. Paul's has about 4,000 active members and 3,400 receiving benefits. These plans are the only two local teacher plans remaining. All others have merged into TRA, which now has more than 77,000 active members and 56,000 benefit recipients.

The key point from the study, TRA Executive Director Laurie Hacking said, is that "consolidation can be achieved if there is sufficient financial assistance from the state to pave the way. … It's possible and I think, doable, especially in the case of Duluth where the amounts of aid that are needed are more moderate."

If any merger is approved, TRA estimates it could take at least a year to implement, including significant time and resources to assure Duluth and TRA members that a merger wouldn't result in a loss of benefits.

"Our members want assurance that our assets are protected and that there's no subsidizing going on," Hacking said. "When Minneapolis Teachers merged into TRA (in 2006), there was a lot of confusion and great deal of concern among members that we were not getting sufficient state aid. We had to do a lot of reassuring."

The big question for the Legislature will be whether lawmakers are willing — and able — to come up with the money.

"That's going to be difficult for the Legislature to get comfortable with," said Rep. Tim O'Driscoll, R-Sartell, a member of the pension commission. O'Driscoll said he would prefer that the school district pay down the unfunded liabilities, rather than putting the burden on all of the state's taxpayers. But he does think a merger is necessary for Duluth.

"We made these promises, we have to fund these promises and we need to make sure we don't do something that creates problems going forward," O'Driscoll said.

Duluth's dire situation

The Duluth pension is in particularly dire circumstances. Its funded ratio — the percentage of liabilities covered by assets — has dropped from 82 percent in 2010 to 54 percent in the fiscal year that ended in July.

And this is hard to turn around because, since 2006, the plan has had more retired members collecting benefits than working members paying into the system. Plus, jobs in the school district are declining along with student enrollment, officials note.

In recent years, the Legislature has approved increases in the contribution rates paid by teachers and the school district, reduced the cost-of-living adjustments paid to retirees and approved $6 million in new state aid (limited to two years), in an effort to staunch Duluth's growing unfunded liabilities.

"A merger is necessary and it seems to be the only solution left, unless the state wants to commit to significant, and growing, aid payments," said Jay Stoffel, Duluth's former executive director, who started a new job at TRA this week.

Minnesota pension fund to ask Legislature for help monitoring overtime spiking

By MaryJo Webster, mwebster@pioneerpress.com, POSTED: 01/09/2014

Minnesota's largest public pension took a first step toward improving its system for monitoring pension spiking.

The Public Employees Retirement Association (PERA) Board of Trustees voted Thursday to ask the Legislature to require all employers in its system to break out overtime amounts when reporting salaries.

This change would make it easier for PERA staff to see if an unusual increase in salary during a person's final years of service is due to excessive overtime -- a practice commonly called pension "spiking" -- or a promotion or some other change in pay.

Last year, in response to a Pioneer Press story about St. Paul Fire Department supervisors using overtime to spike their pensions, PERA asked the more than 500 employers in their system to re-submit all of their pay data for 2010 through 2012, with overtime broken out so staff could attempt to determine if this kind of practice was occurring elsewhere.

"We gave it our best shot," Executive Director Mary Vanek told board members Thursday, but they couldn't come to any conclusions, partly because three of the largest employers -- Minneapolis, Bloomington and Rochester -- failed to submit data. Vanek said a three-year snapshot also was not enough to determine if the overtime in those years was an anomaly or typical for a person's career.

Board members agreed with Vanek that it would be imprudent for them to recommend any policy changes to limit or eliminate overtime from benefit calculations without first having sufficient data to analyze the scope of pension spiking and to assess what impact any potential changes might have on the overall pension fund's financial health.

"Perhaps the media have drummed up a crisis," said board member Rebecca Otto, the State Auditor. "We don't have the data to make conclusions, and we don't know that it's a crisis."

Bruce Jensen, the PERA board representative elected by police and fire members, pointed out that not all cases of excessive overtime in a person's final years of service is an attempt by someone to spike his pension. He noted that homicide detectives rack up lots of overtime and those are typically the most-experienced and highest-paid officers.

"We're talking about a handful of individuals," Jensen said of the fire supervisors highlighted in the Pioneer Press story. "That's not something you make policy on."

The Pioneer Press found deputy and district chiefs in the St. Paul Fire Department -- most in their final years of service -- had clocked huge amounts of overtime, not only boosting their paychecks but also setting themselves up for higher pension checks from PERA for the rest of their lives. Their union contract guarantees each chief 192 overtime hours per year, plus "right of first refusal" in many cases before a lower-ranked captain can fill one of the open chiefs' shifts. Staffing shortages in recent years had exacerbated the amount of available overtime.

Vanek said they regularly hear anecdotal reports of similar instances of excessive overtime that might be pension spiking, but they weren't able to do a systematic search for this practice because their data doesn't break out how much pay comes from overtime.

Dennis Hoelscher, a retired Hennepin County sheriff's deputy and a member of a coalition of retired police officers and firefighters, said he was disappointed that PERA was not taking action to reduce or eliminate spiking at this time.

"They are burying this in bureaucracy," said Hoelscher, who spoke to both the PERA board and the Legislative Commission on Pensions and Retirement last year.

Eliminating spiking is one of several changes the Coalition of Retired Police and Fire members would like made to fix the state's pension system, which had a combined unfunded liability of about $17 billion at the end of the 2013 fiscal year.

"There's nothing wrong with working overtime," Hoelscher said. "But your lifetime pension benefit shouldn't be calculated on that."

The Legislature, which convenes Feb. 25, must approve changing the state statute that spells out what employers are required to submit to PERA. If that happens, Vanek said it would take several months to make the necessary computer programming changes.

The Minnesota State Retirement System (MSRS) also has looked into the issue, since that pension covers state troopers and other state-level public safety workers who clock a lot of overtime. Executive Director Dave Bergstrom said Thursday that MSRS won't ask the Legislature for a similar change to their reporting requirements.

The actuarial valuations for the various pension funds run by PERA and MSRS show salaries are actually lower than had been expected, which Vanek and Bergstrom say is a sign that any spiking that might be occurring is not negatively affecting the financial health of the funds.

"It is important to remember that we collect employee and employer contributions on overtime on people not in their high five period, which helps the fund but doesn't improve members' benefits," Bergstrom wrote in an email to the Pioneer Press. "The Board is still interested in trying to do something with the extreme cases but will not be introducing anything this (legislative) session."

Iowans for Tax Relief calls public employees' pensions 'huge liability' needing reform in 2014 session

Jan. 10, 2014 |

Iowans for Tax Relief, a pro-business group based in Muscatine with nearly 55,000 members, is calling for reform of Iowa's public employee pension programs, saying they are antiquated and represent a "huge liability" for the state's taxpayers.

Changing Iowa's public employees' pension systems is is necessary for the state to remain financially stable, Iowans for Tax Relief said in a statement issued Friday. The organization calls pension reform one of it top priorities for the 2014 session of the Iowa Legislature, which convenes Monday.

"Pension and benefit reform for Iowa's government employees is long overdue and now is the time for the Legislature to enact real reform that will bring savings to the taxpayers and bring Iowa's government employee benefits into the 21st century,"" the organization said.

The state's largest public employee pension program is the Iowa Public Employees' Retirement System, known as IPERS, which serves serves 340,000 current, former and retired employees of state agencies, city and county governments, and school districts. IPERS ended its fiscal year June 30 with $24.7 billion in assets and an unfunded liability of $5.78 billion.
Critics say that one option that can't be ignored any longer by legislators is providing public employees with a defined contribution retirement program, similar to a 401(k) program for private-sector workers. This would not promise a specific benefit, but would allow workers to save money in a tax-deferred account. IPERS is a defined benefit program, which means retirees receive a monthly pension check, but such plans have been dropped as too costly by many private employers.

In a Statehouse meeting with Iowa reporters this week, Gov. Terry Branstad said he considers IPERS' financial position to be far better than Illinois' public employee pension programs, which have faced much larger liabilities. He said he doubts public employee pension reform will be approved during the Iowa Legislature's 2014 session. But he is contemplating the idea of appointing a citizens' committee to examine Iowa's public employees' pension programs. The panel would be broad-based, including taxpayer interests and public employees, he added.
Branstad said any changes in Iowa's public employee retirement programs need to be addressed in a careful and thoughtful way. He noted that changes in public employee pension programs in other states have resulted in lawsuits.

"The good news is that we are not Illinois. We are not in a crisis situation," Branstad said. He pointed out that as the stock market has risen, the state's unfunded liability for the IPERS' program has improved.

“But that not to say that don’t need to find a better approach for the future,” the governor added, noting that many private Iowa employers have switched from defined benefit pension programs to 401(k) programs. Those 401(k) programs ease financial burdens on employers, but place more risk for paying for retirement on employees, according to financial experts.

Iowa Senate Democratic Leader Michael Gronstal of Council Bluffs called the IPERS’ system a modest plan that is not “overly generous.” He expressed concerns that in the past many Iowa teachers lived their retirements in poverty. He noted that Iowa doesn’t offer automatic cost-of-living adjustments and health benefits to retired public employees - which he said are the types of benefits that other states have been eliminating.

Furthermore, if changes are made, Gronstal said Iowa needs to make good its promises made under the current system while implementing a new system. He added that other states have had difficulty making that work.

Iowa Senate Republican Leader Bill Dix of Shell Rock said he agreed that Iowa must keep its pledges already made to public employees. But he doesn’t believe the current pension system for public employees is sustainable, and he wants to avoid future bailouts by Iowa taxpayers. Dix said he would support establishing a 401(k)-type program for Iowa’s public employees. Iowans for Tax Relief noted in its statement on Friday that state legislators are eligible for state government health insurance, as well as IPERS’ pension benefits.

” This is a dangerous conflict of interest,” the statement said. “Pension and benefit reform for government employees is a difficult issue, but a good place for legislators to start would be with themselves. Iowa legislators are intended to be part-time citizen lawmakers; they should not get pensions and health insurance from the government. We call on legislators to lead by example and place the taxpayers’ best interests above their own.”

Senator’s proposal would move state employees to 401(k) plans

By Jim Bruner of The Seattle Times, Monday, January 13, 2014

OLYMPIA — After Boeing’s successful campaign to pressure Machinists into surrendering their pensions, some state lawmakers are renewing calls to phase out public-employee pensions, too.

Taking a page from Boeing’s playbook, state Sen. Doug Ericksen, R-Ferndale, plans to introduce legislation today that would offer a $10,000 incentive to state workers who agree to move from the state pension system into a 401(k)-style retirement package.

“If it’s good enough for Boeing, it should be good enough for the employees of Washington state,” Ericksen said. His plan would end pensions for new state hires in addition to offering the incentive to current workers.

Legislation to curtail public pensions is unlikely to pass in the 60-day legislative session that begins today. Top Democrats say the state pension system is in good shape and that they’ll oppose any move to end pensions.

But Ericksen and others argue that the Boeing deal — which prominent Democrats including Gov. Jay Inslee pushed Machinists to vote on — should stir a long-term debate on the state’s own benefit offerings.

Boeing is paying a $10,000 signing bonus to 31,000 Machinists in Washington this month as part of the controversial contract extension that guarantees assembly of the 777X in Washington but replaces the Machinists' cherished pensions with a 401(k)-style defined-contribution plan.

Ericksen's proposal for state employees is more a pilot project.

It would cap the state's costs for the $10,000 incentive payments at $20 million — meaning only 2,000 employees could receive payments for moving off pensions in the next year.

The proposal also would apply only to workers in the state's Public Employees Retirement System (PERS).

Other public employees, including teachers and State Patrol officers, have separate pension plans that would not be affected.

But state lawmakers would be affected. The proposal would move legislators off the state pension system and into 401(k) plans after each member's next election, Ericksen said.

House Majority Leader Pat Sullivan, D-Covington, and Senate Democratic Leader Sharon Nelson, D-Maury Island, said the state has a healthy pension system, with unfunded liabilities in only a couple of long-closed pension plans.

They added that lawmakers have made several changes in recent years to reduce costs, such as eliminating automatic pension cost-of-living raises.

"I don't think anybody can say with a straight face that we haven't done a responsible job in funding our pension system, but also making changes to make sure it's healthy," Sullivan said.

Inslee also said he'd oppose efforts to go after public pensions.

Tim Welch, a spokesman for the Washington Federation of State Employees, said there is no financial need to end public pensions, calling efforts to do so "a mean and nasty effort to harm public employees."

If anything, Welch said, pensions enjoyed by public employees should be restored to the private sector, because 401(k) plans were never meant to provide a secure retirement for average workers.

But state Senate Majority Leader Rodney Tom predicted it would be difficult for the state to sell tax increases for schools or roads if public employees continue to hold on to pensions unavailable to most workers.

"I think that's where we're at — that's where the private sector is at," said Tom, a Medina Democrat who joined Republicans and one other Democrat last year to form a majority coalition in the state Senate.

Tom proposed legislation last year that would have moved newly hired state workers, as well as current employees under the age of 45, to a 401(k) plan. The legislation didn't go anywhere.

An alternative bill to make a 401(k) optional for all new state workers passed the state Senate but died without a hearing in the Democrat-controlled state House.

While public pension systems in some states are in bad shape, Washington's is considered comparatively healthy.

A 2012 study by the Pew Center on the States ranked Washington's pension system among the top four states nationally — with 95 percent of its pension liability funded.

While the state's current pension-plan funds are considered secure by the state actuary's office, two long-closed state pension plans have an unfunded liability of about $5.7 billion.

But some lawmakers and critics argue that the state's actual debt could prove much higher if the pension systems' investments don't achieve their assumed 8 percent rate of return.

There are 144,000 retired state workers who receive annual pensions averaging about $21,000 a year, according to the actuary's office.

Illinois Pension Law Challengers Lay Out Their Cases (Sent by Treasurer Schmidt)

CHICAGO - A group of current and retired Illinois educators say they relied on the state constitution's pension guarantee as they planned their careers, retirement timing, and children's education, and that lawmakers violated that guarantee when they overhauled the state pension system.

And so begins the fight unions and groups representing state employees and retirees promised before the ink dried on the legislation approved in early December. It scales back on what are now automatic cost-of-living adjustments, raises the retirement age for some, and caps pensionable salaries.

The fight over pensions in Illinois is among the most prominent such debates around the country as state and local governments from California to Puerto Rico confront pension liabilities.

To date, **three complaints** have been filed challenging the constitutionality of the pension overhaul, **two in Sangamon** County Circuit Court in Springfield, the state capital, **and one in** Chicago's Cook County Circuit Court. Others are expected to follow ahead of the law's effective date in June.

At the heart of the complaints is Article XIII, Section 5 of the state constitution known as the state's pension clause: "Membership in any pension or retirement system of the state, any unit of local government or school district or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

The guarantee was counted on by teachers and administrators as they planned their retirement, sent their children to college, and decided against moving to the private sector, plaintiffs argue. "The guarantee on which so many relied has been violated," asserts the educators' complaint in Cook County.

Several of the complaints also lay out other key arguments behind union and retirement groups' positions. They cite the state constitution's contract clause and attempt to show the "intent" of participants in the 1970 constitutional convention during which the pension clause was established to protect pension benefits.

The state will be represented by Attorney General Lisa Madigan's office. Her father, House Speaker Michael Madigan, D-Chicago, is a key architect of the final legislation.

The Illinois conflict is similar to fights in several other states, but most experts say out-of-state precedents aren't transferable and the outcome will rest in Illinois law which affords pension benefits strong constitutional protections.

Supporters say the Illinois overhaul is needed to avert a fiscal calamity driven by underfunded pensions.

"We believe the new law is as constitutionally sound as it is urgently needed to resolve the state's pension crisis," Gov. Pat Quinn's spokeswoman Brooke Anderson said in a statement after the first challenge was filed Dec. 27.

"This historic law squarely addresses the most pressing fiscal crisis of our time. It will ensure retirement security for those who have faithfully contributed to the pension systems, end the squeeze on critical education and human services and support economic growth," she said.

Sponsors say if all pieces are upheld, the overhaul will shave $160 billion off scheduled payments to the system, pare about $21 billion off the state's $100.5 billion of unfunded liabilities, and $1.5 billion off upcoming annual state contributions. Final actuarial assessments are still in the works.

The primary savings will come from changing cost-of-living adjustments to grow at a slower rate on most portions of an annuitant's pension. Up to five COLA adjustments will be skipped.

The legislation also creates an optional 401(k)-style defined contribution plan although participation is limited. Employee contributions will drop by 1% and the state will make supplemental contributions in future years. Under the new law, the state will shift to an actuarially based method that moves the state's system to full funding by 2044. State contributions are guaranteed and pension funds could ask the courts to compel the state to make the payments although lawmakers can vote to change them.

The state will argue that those latter provisions offer a buffer for employees and retirees under the legal theory of "consideration" in which some improvements are offered in exchange for negative modifications to a contract.

A lengthy preamble to the legislation lawmakers said underscores their "intent" in passage of the law offers another legal avenue for state lawyers to pursue - that fiscal doom lies ahead for the state and the pension system without reforms.

Illinois carries the lowest bond ratings among states at the low-single-A level. Fitch Ratings and Moody's Investors Service have called the changes a positive and Standard & Poor's shifted the state's outlook to "developing" from negative after the legislation passed. Interest rate penalties demanded by investors also narrowed when Illinois sold general obligation sale after the overhaul passed.

The bill's preamble outlines the dire status of the pension system and its drain on state coffers, the spending cuts and tax increases already implemented to help shore up the state's books, and the state's sharp credit deterioration.

The complaints assail the state's arguments. The RSEA lawsuit mocks the legislation's preamble, calling it "pure political theater and not a valid statement of intent."

The law "rewrites history and proposes to balance the state budget on the backs of retirees, making retirees the scapegoat for the state's fiscal sins," the RSEA complaint reads. It cites the state's past practice of sometimes shortchanging annual payments to the funds while requiring state employees to meet their commitments.

The framers of the 1970 constitution approved during a constitutional convention and ratified by voters "left unmistakable evidence of their intent" as they debated the clause, asserts one complaint.

In 1970, the state's unfunded liabilities were $2.5 billion and the system just 41.8% funded. The system is currently 39.3% funded. The clause's sponsor Henry Green said it would put the General Assembly on notice that membership in a system is an enforceable contract.

Another participant said the intent was to guarantee that benefits in place at the time employees joined the system have an enforceable right irrespective of the sponsoring government's financial condition.

Plaintiffs go on to further argue that their contract is enforceable under the state constitution's contract clause that reads: "No ex post facto law, or law impairing the obligation of contracts or making an irrevocable grant of special privileges or immunities, shall be passed."

Legal precedent exists in past state Supreme Court rulings, the teachers' lawsuit argues. It quotes past cases in which the court said it "consistently invalidated amendments to the pension code where the result is to diminish benefits" with the contractual relationship governed by the terms of the pension code in place at the time an employee enters the system.

"No principle of law permits us to suspend constitutional requirements for economic reasons, no matter how compelling those reasons may seem" is quoted from another case.

One complaint also argues that the label of COLA is inaccurate with state references dating back to 1969 referring to the annuity perk as an automatic increase.

Complaints also argue the law violates the state's equal protection clause as the changes impact four of the state's five retirement systems', leaving out the judges who will decide the law's fate, and they cite legal precedent for their position in past Illinois Supreme Court rulings.

There are eight named plaintiffs in the case filed Dec. 27 in Cook County who are current and retired teachers and school officials. The group is represented by Tabet, DiVito & Rothstein LLC and names as defendants Quinn, Comptroller Judy Baar Topinka, and trustees of the Teachers Retirement System.

The Retired State Employees Association lawsuit was filed in Sangamon County Circuit Court on Jan. 2. In addition to Quinn and Topinka, it also names Treasurer Dan Rutherford and trustees for the State Employees Retirement System. The group is represented by Rabin & Myers PC.

The Illinois State Employees Association Retirees also filed suit on Jan. 2 in Sangamon County. The association and its members named as plaintiffs are represented by Craven Law Office. It names as defendants Quinn, Topinka, Rutherford, and the board of trustees of the four impacted retirement systems.

The complaints all ask the court to overturn the pension law and seek class action status.

Legal experts are divided over whether the entirety of the new law, or portions of it, can withstand a challenge and one of the complaints specifically notes concerns voiced by Senate President John Cullerton, D-Chicago, who participated in final negotiations.

Court tests on pension changes across the country offer a mixed bag and don't necessarily provide a road map given the variances of individual state and constitutional law, especially on the central issue of COLA changes. Illinois is considered to have among the most stringent pension protections, similar to New York and Arizona.

Some rulings have granted stronger status solely to accrued benefits or retirees. In a Minnesota case, COLA changes were upheld for current retirees. Lower courts in Arizona have struck down pension cuts imposed by lawmakers, but a final ruling from the state's high court is still pending.

The Civic Federation of Chicago's Institute for Illinois' Fiscal Sustainability offered an overview of COLA changes enacted in other eight other states in a report published last week. The report - citing Amy Monahan a pension law expert at the University of Minnesota -- said court decisions on whether states have the ability to reduce COLAs have varied widely, making it difficult to predict whether such reductions are a viable option for states.

Final rulings in a few states are still pending before their high court while parties involving Rhode Island's changes are in court-ordered mediation, according to the Civic Federation citing information based partly on a report by the Laura and John Arnold foundation.

Are City Fiscal Woes Widespread? Are Pensions the Cause?

A new issue brief from the Center for State and Local Government Excellence, prepared for them by the Center for Retirement Research (CRR) at Boston College, examines the extent to which economic factors, poor fiscal management, and/or high pension costs contribute to the challenges cities with financial problems face. In short, are cities across the country "about to topple like dominoes" and if so, are pensions the problem? "The answer appears to be 'no' on both fronts," the issue brief concludes.

Entitled *Are City Fiscal Woes Widespread? Are Pensions the Cause?,* the issue brief notes at the outset that Detroit's bankruptcy has put a focus on cities' financial outlook and the role of public pensions in that regard. "Some commentators presume that excessive unfunded pension commitments will lead to widespread bankruptcies," the brief explains. Chicago is frequently cited as the "poster child" example of a city where substantial pension commitments and lack of funding have resulted in a financial crisis. "The question is whether Chicago is unique or the tip of the iceberg," the brief explains.

In answering that question, the CRR authors find that only a small number of cities overall face serious financial troubles and one-third of them are in California. "Outside of California, the incidence of troubled cities appears to be scattered and varying in severity," they note. More importantly, they find that "when identifying the source of the problems, fiscal mismanagement leads the list," with economic problems, "in large part a response to the financial crisis and ensuing recession," coming in second. "Pensions do play a role," the issue brief concludes, "but that role is much smaller than the other considerations."

In short, as Beth Kellar, President and CEO of the Center for State and Local Government Excellence, explains, the underlying problems in financially troubled cities—population loss, declining tax bases, and other patterns of fiscal mismanagement—have been decades in the making. "Pensions are a minor factor in financially troubled cities," she points out.

The Risks to Business when Employees Can't Retire.

What happens to businesses when their older workers can't afford to retire? A new Towers Watson article discusses the significant financial and operational consequences for companies when this occurs.

The piece begins with the observation that when people generally don't save enough to cover their retirement needs, especially taking into account increased longevity, "many, if not most, will have to work longer than they'd planned." "This will exact a considerable toll on their employers," Towers Watson warns.

For example:

- Financially, higher salaries will be paid to longer-tenured workers who, in general, also incur greater health care costs.
- Employees who continue to work primarily because they can't afford to retire are likely to be less engaged and productive than other workers.
- Blocked career paths will result for other employees, increasing the risk of losing critical talent or new skill sets.

The Towers Watson piece argues that legislative, financial, and economic hurdles, together with significant demographic changes, have made it financially challenging for employers to continue providing traditional defined benefit (DB) pension plans and medical coverage for retirees. “As many companies have moved to defined contribution–only retirement strategies, employees’ ability to have a secure retirement at a predictable age has diminished,” they note. Indeed, according to the article, retirement readiness assessments find that “for the typical workforce, the median age of reaching financial independence is well past age 65, with half of the workforce unlikely to be able to retire before age 80.”

Employers need to understand the “hidden costs” and take action to “protect the organization from unpredictable retirement patterns,” Towers Watson concludes. They suggest several approaches centered on 401(k) plans. However, as they also note, current estimates suggest that total annual savings of between 12% and 15% of pay are required to retire at age 65 if an individual begins saving early in his or her career using the DC model, and for those starting later, total annual savings of between 20% and 40% of pay will be necessary to retire by age 65.

If, as Towers Watson concedes, defined contribution–only retirement strategies have diminished employees’ ability to have a secure retirement at a predictable age, perhaps it is time for companies to recognize that they have a very real business interest in finding a better approach. Perhaps it is time for them to recognize that the defined benefit model offers unparalleled ways in which to ensure that employees can afford to retire and can be encouraged to do so in an orderly, well-planned, manageable way that makes good sense for both employers as well as their workers.

“Perhaps it is time for private sector employers to ‘go back to the future’ and rediscover the strengths of the DB model that the public sector has never forgotten,” said Meredith Williams, NCTR’s Executive Director.

Towers Watson concludes their article by noting that “To be effective, employers must partner with their employees to plan for and build a financially secure future before it becomes simply too late.”

“I couldn’t agree more,” said Williams. “The public sector approach to retirement security, centered on the essential elements of the DB model, provides an excellent example of what can be accomplished when both employers and employees are committed to achieving this critically important goal,” the NCTR chief pointed out. “Businesses will benefit; employees will benefit; and the nation will benefit,” he stressed.