Agenda

ND Teachers' Fund for Retirement Board Meeting

Thursday, March 27, 2014
1:00 pm

Peace Garden Room, State Capitol
Bismarck, ND

TFFR Board picture – 12:45 pm   Great Hall

Business Meeting – 1:00 pm   Peace Garden Room

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

2. Approval of Minutes of January 23, 2014, Meeting – Pres. Gessner

3. Board Education: TFFR Employer Reporting- Shelly Schumacher, Tami Volkert

4. 2015 Legislation – Fay Kopp

5. GASB 67 and 68 Planning – Fay Kopp

6. SIB Update – Dave Hunter

7. RIO Staffing Update – Dave Hunter

8. Audit Committee Update – Mike Gessner

9. 2014-15 Board Meeting Schedule – Fay Kopp

10. Consent Agenda – Disability and QDRO Applications
    *Executive Session possible if Board discusses confidential information under NDCC 15-39.1-30.

11. Legal Updates – Jan Murtha, Asst. Attorney General
    - Halliburton amicus brief
    - Member QDRO litigation
      *Executive Session for attorney consultation and confidential member information under NDCC 44-04-19.1, 44-04-19.2, and 15-39.1-30.

12. Other Business

13. Adjournment

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
JANUARY 23, 2014, BOARD MEETING

BOARD MEMBERS PRESENT:	Mike Gessner, President Clarence Corneil, Vice Chair (Teleconference) Kirsten Baesler, State Superintendent Kim Franz, Trustee Rob Lech, Trustee Mel Olson, Trustee Kelly Schmidt, State Treasurer
STAFF PRESENT:	David Hunter, ED/CIO Fay Kopp, Deputy ED/CRO Darlene Roppel, Retirement Assistant Shelly Schumacher, Retirement Program Manager Darren Schulz, Deputy CIO
OTHERS PRESENT:	Erica Cermak, NDRTA Janilyn Murtha, Attorney General's Office

CALL TO ORDER:

Mr. Clarence Corneil, Vice Chairman of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the board meeting to order at 1:20 p.m. on Thursday, January 23, 2014, at the State Capitol, Peace Garden Room, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: MR. CORNEIL (TELECONFERENCE), MRS. FRANZ, MR. LECH, MR. OLSON, SUPT. BAESLER, AND TREASURER SCHMIDT.

Mr. Corneil called for a motion to appoint a temporary chairman in President Gessner's absence.

SUPT. BAESLER MOVED AND MRS. FRANZ SECONDED TO APPOINT MR. OLSON AS TEMPORARY CHAIRMAN UNTIL PRESIDENT GESSNER ARRIVES.

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

APPROVAL OF AGENDA AND MINUTES:

The Board considered the meeting agenda and the minutes of the October 24, 2013, board meeting.

MR. LECH MOVED AND SUPT. BAESLER SECONDED TO APPROVE THE AGENDA FOR THIS MEETING AND THE MINUTES OF THE REGULAR TFFR BOARD MEETING HELD OCTOBER 24, 2013, AS PRESENTED.

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

Mr. Gessner arrived at 1:30 p.m. Mr. Gessner presided over the remainder of the meeting.

BOARD EDUCATION - OPEN RECORDS/OPEN MEETINGS:

Ms. Jan Murtha, Attorney General's Office, presented information relating to state laws and Attorney General's Office (AGO) guidance on open records and open meetings. All public entities in the state of North Dakota are subject to open record and meeting laws.

Open meetings are a quorum of a governing body of a public entity discussing public business. Ms. Murtha summarized the basic rules regarding open meetings, exceptions, precautions, notice requirements, types of meetings, executive sessions, and minute's requirements.

Open records are all records in possession of a public entity regarding public business. Ms. Murtha described the basic rules relating to open records, exempt vs. confidential records, reasonable time period, basics of charging, electronic records, and violations. She also provided details on TFFR statutes and policies relating to confidentiality of TFFR member records.

The presentation is on file at the Retirement and Investment Office (RIO).

Ms. Murtha also reviewed the December 12, 2013, Attorney General's opinion on the Defense of Marriage Act (DOMA) relating to same-sex marriages which would not be recognized in ND.

The board recessed at 3:00 p.m. and reconvened at 3:13 p.m.

ANNUAL PENSION PLAN COMPARISONS REPORT:

Mrs. Fay Kopp, Deputy Executive Director/Chief Retirement Officer, presented the annual Pension Plan Comparison report, comparing TFFR to the 2012 Public Fund Survey (PFS) conducted by the National Association of State Retirement Administrators (NASRA) and the National Council on Teacher Retirement (NCTR). It includes about 85% of the entire state and local government retirement system community. The survey provides information about funding levels, investments, membership changes, contribution rates, pension and retirement security, and actuarial assumptions. Mrs. Kopp stated once the 2008-09 investment losses have been factored into actuarial calculations (2013), and contribution changes completely implemented (2014), TFFR's funding level is expected to improve.

The report and presentation are on file at RIO.

After discussion,

MRS. FRANZ MOVED AND MR. OLSON SECONDED TO APPROVE THE ANNUAL PENSION PLAN COMPARISONS REPORT.

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

ANNUAL RETIREMENT TRENDS REPORT:

Mrs. Shelly Schumacher, Retirement Program Manager, presented the annual retirement trends and projections report. There are currently 1,262 active members eligible to retire. It is projected that 350-400 active members will retire each year for the next ten years. The report is on file at RIO.

After discussion,

MR. OLSON MOVED AND MRS. FRANZ SECONDED TO APPROVE THE ANNUAL RETIREMENT TRENDS REPORT.

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

2015 LEGISLATIVE PLANNING:

Mrs. Kopp reviewed the timelines for planning for the 2015 legislative session. Proposed legislation must be finalized at the March board meeting as the deadline for submission to the Legislative Employee Benefits Programs Committee (LEBPC) is April 1, 2014. Based on 2013 actuarial funding projections from Segal, no additional contribution or benefit changes are needed for funding purposes at this time. Technical corrections and administrative changes to statutes will be needed for Internal Revenue Code (IRC) compliance purposes. A draft bill will be prepared with these changes and will be presented at the March 2014 TFFR board meeting for approval.

Board discussion followed regarding current plan design, funding and projections; defined contribution, hybrid and other alternative plan designs; retiree re-employment, salary spiking, etc. It was the consensus of the board to give the contribution and benefit changes approved in the 2011 legislative session time to take effect and improve TFFR's funding level.

Ms. Kopp updated the Board on the interim LEBPC and Government Finance Committee studies and meetings.

Ms. Kopp will continue to provide further education and legislative updates as deemed necessary.

SIB UPDATE:

Mr. Dave Hunter, Executive Director/Chief Investment Officer (ED/CIO) introduced himself to the board and expressed his appreciation for the opportunity to serve in this position. Mr. Hunter reviewed public pension plan peer group investment returns as of September 30, 2013. TFFR was in the first quartile for the 12 months ended September 30, 2013; top third in the last three years, and 28th percentile for the last 10 years, the time period which included the Great Recession. TFFR has averaged a 9.32% return over the past 30 years. Mr. Hunter also reviewed TFFR's asset allocation as of September 30, 2013. The estimated fiscal year to date (July 1, 2013-January 22, 2014) return is 10.36%.

RIO STAFFING UPDATE:

Mr. Hunter presented a staffing update. Mr. Hunter began as ED/CIO on December 2, 2013; Mr. Cody Schmidt joined RIO December 9, 2013, as Compliance Officer; Mrs. Connie Flanagan rejoined RIO as Fiscal and Investment Operations Manager January 21, 2014; and Mr. Rich Nagel has been promoted to Supervisor of Information Technology replacing Mr. Gary Vetter, who is retiring March 31, 2014. The Audit Supervisor position has been posted. The Investment Analyst position will be posted once an organizational review of investment and fiscal division duties are reviewed. A copy of the updated RIO organizational chart was also reviewed.

GASB IMPLEMENTATION PLAN:

Mrs. Kopp reported on actions being taken to implement the new pension reporting standards, Governmental Accounting Standards Board (GASB) Statements No. 67 and No. 68, in the state of North Dakota. The State Auditor's Office (SAO), Public Employees Retirement System (PERS) and TFFR are working with the plan's actuaries, auditors, and other interested parties to develop an implementation plan. The entities also plan to facilitate training for participating employers later this year.

IRS PLAN QUALIFICATION REVIEW:

Mrs. Kopp reviewed plans for the next Internal Revenue Service (IRS) plan qualification review. The TFFR plan will be submitted in Cycle E, during the February 1, 2015 – January 31, 2016 time frame. Prior to that time, a compliance review will be conducted by the plan's actuary to identify whether any other statutory changes need to be made.

2013 CAFR AND PPCC AWARD:

Mrs. Kopp reported the 2013 Comprehensive Annual Financial Report (CAFR) is available on the RIO website. The CAFR provides a detailed look at investment, financial, actuarial and statistical information about the TFFR and State Investment Board (SIB) programs. RIO has received the Certificate of Achievement for Excellence in Financial Reporting for 15 years. TFFR has also received the 2013 Public Pension Standards Award from the Public Pension Coordinating Council (PPCC). TFFR has received a PPCC award since 1992.

TRUSTEE EDUCATION:

Mrs. Kopp provided the board with dates and information on trustee education and conferences that are available in 2014.

CONSENT AGENDA:

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDES ONE DISABILITY APPLICATION – 2014-1D.

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

OTHER BUSINESS:

The next board meeting will be held on March 27, 2014.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 5:03 p.m.

Respectfully Submitted:

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

____
Darlene Roppel
Reporting Secretary

MEMORANDUM

TO: TFFR Board

FROM: Fay Kopp

DATE: March 20, 2014

SUBJ: BOARD EDUCATION: TFFR Employer Reporting

School district business managers have a difficult job. In addition to their other job duties, they are responsible for accurate and timely TFFR reporting. They are required to determine eligibility for TFFR membership, calculate and pay retirement contributions based on eligible retirement salary, and prepare and file various reports and forms.

Shelly Schumacher, Retirement Program Manager, and Tami Volkert, Employer Services Coordinator, will provide information on TFFR employer reporting. They will present an overview of employer responsibilities, employer payment plan descriptions, and reporting requirements.

TFFR staff provides guidance to employers through the TFFR website, publications, newsletters, workshops, and telephone and written communications. Feedback from employers is very positive which reflects our staff's excellent communications skills, depth of knowledge, and wide range of experience.

TFFR EMPLOYER REPORTING OVERVIEW

TFFR Board
March 27, 2014

Shelly Schumacher and Tami Volkert
Teachers' Fund for Retirement (TFFR)

TFFR – Topics to Cover

- Background
- Employer Responsibilities
- Employer Models
- Reporting Requirements

TFFR Employer Background

TFFR Participating Employers

School Districts	180
Special Ed Units	19
Vocational Centers	5
Counties	7
State Agencies/Institutions	5
Other – Closed groups	3
2013-14 Total Employers	**219**

Employer Responsibilities

Employer Responsibilities

1. Identify Employees Eligible for TFFR

2. Report Eligible Salary

3. Collect and Pay Contributions

Employer Responsibilities

- Identify Employees Eligible for TFFR
  - Licensed by ESPB
  - Under Contract or Written Agreement

Employer Responsibilities

- Report Eligible Salary
  - Earnings for Performance of Duties
    - Teaching, Supervisory, Administrative, Extra-curricular
    - Performance or Merit Pay
    - Report Salary in Correct Fiscal Year (earned not when paid)
- Do not Report Ineligible Salary
    - Fringe Benefits
    - Pay for Unused Leave
    - Early Retirement/Severance Pay
    - Bonus
    - Teacher’s Aide, Ticket Taking, Referee, Bus Driving, Janitorial
    - Benefits or Payments Converted to Salary
    - Back Loaded Salary Structures (spiking)
    - Other Payments TFFR Board Determines Ineligible

Employer Responsibilities

- Collect & Pay Contributions

	Employer	Member	Total
7/1/12	10.75%	9.75%	20.5%
7/1/14	12.75%	11.75%	24.5%

Note: 2011 legislation increased rates effective 7/1/12 and 7/1/14 to improve TFFR funding level. Increased rates will be in effect until TFFR reaches 100% funded ratio; then rates will be reduced to 7.75% each.

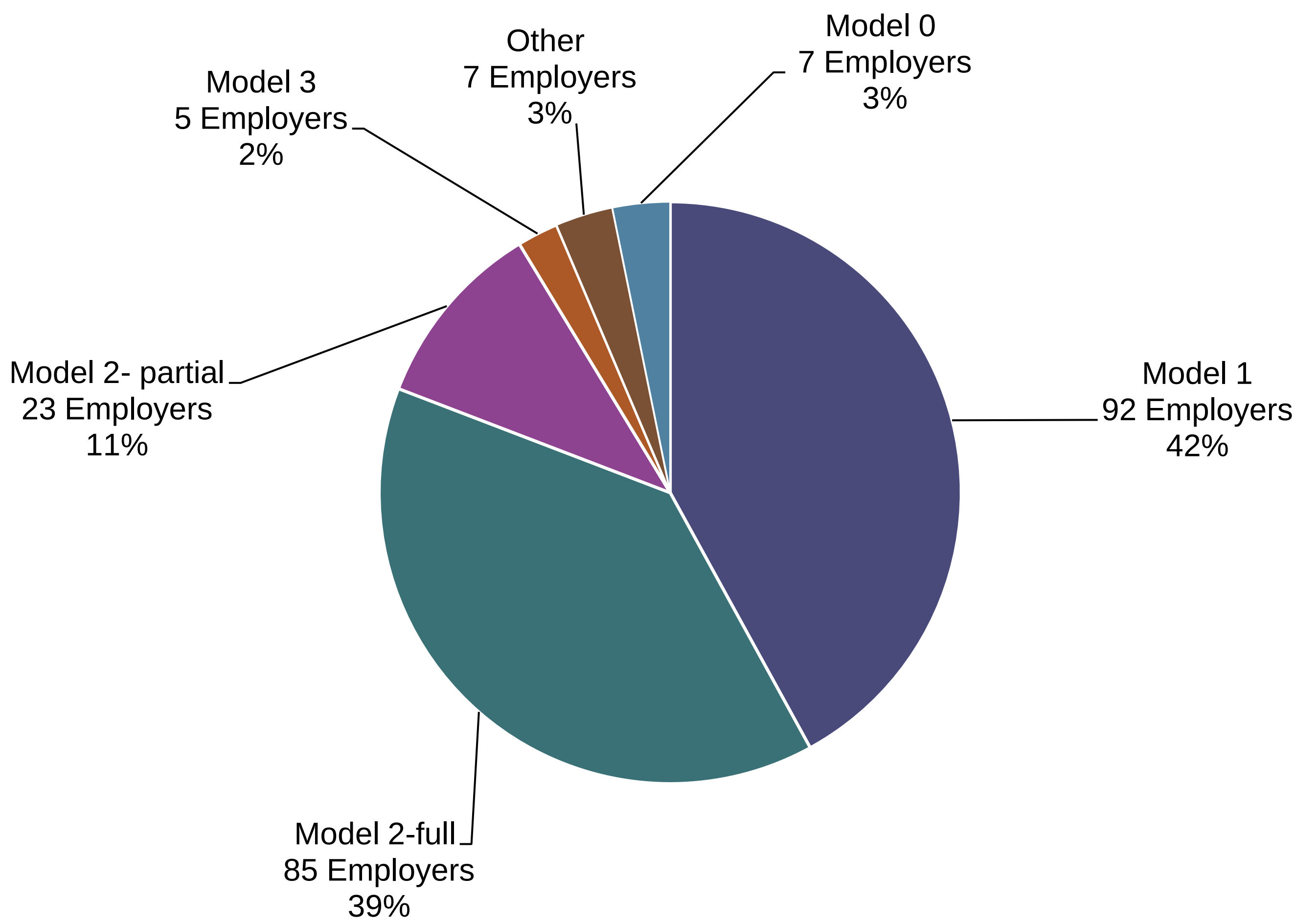
TFFR Employer Models

TFFR Employer Models

Payment of member contributions on a tax deferred basis can be made through a: (1) salary reduction or (2) salary supplement.

- **No Model**: Member/employee contribution is paid by employee and remitted by employer as taxed dollars.
- **Model 1**: Member/employee contribution is paid by employee through a salary reduction and remitted by employer as tax deferred dollars.
- **Model 2 All:** Member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars.
- **Model 2 Partial % and Model 3 Partial $:** A portion of the member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars. The remaining employee contribution is paid by employee and remitted by employer as tax deferred dollars. Model 3 $ option is no longer available.
- **Other:** Includes state agencies and closed groups with special provisions.

TFFR Employer Models 2013-14



MODEL 1

Employer Remittance of ALL the Member Contributions as a Salary Reduction

Contract/Additional TFFR Salary Earned by the Member	$20,000.00	
Retirement Salary	$20,000.00	
Employer Contributions	$ 2,150.00	(Retirement Salary of $20,000 x 10.75%)
Tax-Deferred Member Contributions Withheld from Member's Pay and Remitted by the Employer as a Salary Reduction	$ 1,950.00	(Retirement Salary of $20,000 x 9.75%)
Taxable Salary Reported for Federal and ND State Income Tax Purposes	$18,050.00	(Contract Salary of $20,000 less $1,950 Tax-Deferred Member Contributions)
Taxable Salary Reported to Social Security	$20,000.00	

MODEL 2 (Partial)

Employer Payment of A PERCENTAGE OF Member Contributions as a Salary Supplement

Example: Employer agrees to pay member contributions of 7.75%, as a salary supplement. The remaining 2.00% will be deducted from the member's pay. All member contributions will be tax-deferred.

Contract/Additional TFFR Salary Earned by the Member	$20,000.00
<u>Retirement Salary</u>	<u>$21,680.22</u> (Contract Salary of $20,000/ 1.0 - .0775)
Employer Contributions	$ 2,330.62 (Retirement Salary of $21,680.22 x 10.75%)
Tax-Deferred Member Contributions Paid by the Employer as a Salary Supplement	$ 1,680.22 (Retirement Salary of $21,680.22 x 7.75%)
Tax-deferred Member Contributions Withheld from Member's Pay and Remitted by the Employer as a Salary Reduction	$ 433.60 (Retirement Salary of $21,680.22 x 2%)
Taxable Salary Reported for Federal and North Dakota State Income Tax Purposes	$19,566.40 (Contract Salary of $20,000 less $433.60 Tax-deferred Member Contributions paid by member)
Taxable Salary Reported to Social Security	$20,000.00

MODEL 2 (ALL)

Employer Payment of ALL the Member Contributions as a Salary Supplement

Contract/Additional TFFR Salary Earned by the Member	$20,000.00	
<u>Retirement Salary</u>	<u>$22,160.66</u>	(Contract Salary of $20,000/1.0 - .0975)
Employer Contributions	$ 2,382.27	(Retirement Salary of $22,160.66 x 10.75)
Tax-Deferred Member Contributions Paid by the Employer as a Salary Supplement	$ 2,160.66	(Retirement Salary of $22,160.66 x 9.75%)
Taxable Salary Reported for Federal and North Dakota State Income Tax Purposes	$20,000.00	
Taxable Salary Reported to Social Security	$20,000.00	

MODEL 1

Employer Remittance of ALL the Member Contributions as a Salary Reduction

Contract/Additional TFFR Salary Earned by the Member	$22,160.66	
Retirement Salary	$22,160.66	
Employer Contributions	$ 2,382.27	(Retirement Salary of $22,160.66 x 10.75%)
Tax-Deferred Member Contributions Withheld from Member's Pay and Remitted by the Employer as a Salary Reduction	$ 2,160.66	(Retirement Salary of $22,160.66 x 9.75%)
Taxable Salary Reported for Federal and ND State Income Tax Purposes	$20,000.00	(Contract Salary of $22,160.66 less $2,160.66 Tax-Deferred Member Contributions)
Taxable Salary Reported to Social Security	$22,160.66	

FICA Savings Example

- Change from Model 1 to Model 2 or give salary increase of an equal amount.
- Assume 100 employees are making $20,000 annually.

Employee Impact:

Model 1 FICA Salary $22,160.66 x 7.65% = $1,695
Model 2 FICA Salary $20,000.00 x 7.65% = $1,530
$165 less employee FICA taxes under Model 2

Employer Impact:

Model 1 FICA Salary $22,160.66 x 100 x 7.65% = $169,529
Model 2 FICA Salary $20,000.00 x 100 x 7.65% = $153,000
$16,529 less employer FICA taxes under Model 2

TFFR Employer Models

- New Employer Plan Form Required in 2014
  - Negotiations Regarding 2% Member Contribution Increase
  - TFFR can Provide Model Change Analysis
- Employer Must Follow Same Model for all TFFR Members
- Model Change Must be Effective July 1

Reporting Requirements

Reporting Requirements

- Forms Required
  - Member Action Form (new and returning refunded members)
  - Re-employed TFFR Retiree Form (each year the retiree is re-employed)

- Monthly Report of Earnings & Payment of Contributions
  - Due 15^{th} of Following Month
  - Internet or Paper
  - Penalty & Interest on Late Reporting

- Accuracy of Reporting
  - Member Annual Statements
  - School District Compliance Audits
  - Annual Reasonability Reports
  - Salary Review During Counseling Sessions
  - Review of Salary at Retirement

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **March 20, 2014**

SUBJ: **2015 Legislation**

Based on discussion at the January meeting, Assistant Attorney General Jan Murtha drafted a bill (enclosed) relating to proposed technical changes to the TFFR plan. These changes update TFFR statutes for IRS compliance purposes by changing applicable dates from August 1, 2013 to August 1, 2015.

15-39.1-04(10)	Definitions – Salary
15-39.1-10(4)	Eligibility for normal retirement benefits
15-39.1-10.6	Benefit Limitations
15-39.1-20	Withdrawal from the fund

As you know, proposed 2015 legislation must be filed with Legislative Council by April 1, 2014. Therefore, the TFFR Board will need to approve submission of the bill draft for interim study by the Legislative Employee Benefits Programs Committee.

Please review bill draft and plan to discuss.

Enclosure

Sixty-fourth
Legislative Assembly
of North Dakota

________ BILL NO. _____

Introduced by

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

A BILL for an Act to amend and reenact sections 15-39.1-04(10), 15-39.1-10(4), 15-39.1-10.6, and 15-39.1-20 of the North Dakota Century Code, relating to the incorporation of federal law changes for the definition of salary, eligibility for normal retirement benefits, benefit limitations, and withdrawal from the fund under the teachers' fund for retirement.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 10 of section 15-39.1-04 of the North Dakota Century Code is amended and reenacted as follows:

10. "Salary" means a member's earnings in eligible employment under this chapter for teaching, supervisory, administrative, and extracurricular services during a plan year reported as salary on the member's federal income tax withholding statements plus any salary reduction or salary deferral amounts under 26 U.S.C. 125, 132(f), 401(k), 403(b), 414(h), or 457 in effect on August 1, ~~2013~~2015. "Salary" includes amounts paid to members for performance of duties, unless amounts are conditioned on or made in anticipation of an individual member's retirement or termination. The annual salary of each member taken into account in determining benefit accruals and contributions may not exceed the annual compensation limits established under 26 U.S.C. 401(a) (17)(B) in effect on August 1, ~~2013~~2015, as adjusted for increases in the cost of living in accordance with 26 U.S.C. 401(a)(17)(B) in effect on August 1, ~~2013~~2015. A salary maximum is not applicable to members whose participation began before July 1, 1996. "Salary" does not include:

a. Fringe benefits or side, nonwage, benefits that accompany or are in addition to a member's employment, including insurance programs, annuities, transportation allowances, housing allowances, meals, lodging, or expense allowances, or other benefits provided by a member's employer.

b. Insurance programs, including medical, dental, vision, disability, life, long-term care, workforce safety and insurance, or other insurance premiums or benefits.

c. Payments for unused sick leave, personal leave, vacation leave, or other unused leave.

d. Early retirement incentive pay, severance pay, or other payments conditioned on or made in anticipation of retirement or termination.

e. Teacher's aide pay, referee pay, busdriver pay, or janitorial pay.

f. Amounts received by a member in lieu of previously employer-provided benefits or payments that are made on an individual selection basis.

g. Signing bonuses as defined under section 15.1-09-33.1.

h. Other benefits or payments not defined in this section which the board determines to be ineligible teachers' fund for retirement salary.

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

4. Retirement benefits must begin no later than April first of the calendar year following the year the member attains age seventy and one-half or April first of the calendar year following the year the member terminates covered employment, whichever is later. Payments must be made over a period of time which does not exceed the life expectancy of the member or

the joint life expectancy of the member and the beneficiary. Payment of minimum distributions must be made in accordance with section 401(a)(9) of the Internal Revenue Code in effect on August 1, ~~2013~~2015, and the regulations issued under that section, as applicable to governmental plans.

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

15-39.1-10.6. Benefit limitations.

Benefits with respect to a member participating under former chapter 15-39 or chapter 15-39.1 or 15-39.2 may not exceed the maximum benefits specified under section 415 of the Internal Revenue Code [26 U.S.C. 415] in effect on August 1, ~~2013~~2015, for governmental plans. The maximum dollar benefit applicable under section 415(b)(1)(A) of the Internal Revenue Code must reflect any increases in this amount provided under section 415(d) of the Internal Revenue Code subsequent to August 1, ~~2013~~2015. If a member's benefit is limited by these provisions at the time of retirement or termination of employment, or in any subsequent year, the benefit paid in any following calendar year may be increased to reflect all cumulative increases in the maximum dollar limit provided under section 415(d) of the Internal Revenue Code for years after the year employment terminated or payments commenced, but not to more than would have been payable in the absence of the limits under section 415 of the Internal Revenue Code. If an annuitant's benefit is increased by a plan amendment, after the commencement of payments, the member's benefit may not exceed the maximum dollar benefit under section 415(b)(1)(A) of the Internal Revenue Code, adjusted for the commencement age and form of payment, increased as provided by section 415(d) of the Internal Revenue Code. If this plan must be aggregated with another plan to determine the effect of section 415 of the Internal Revenue Code on a member's benefit, and if the benefit must be reduced to comply with section 415 of the

Internal Revenue Code, then the reduction must be made pro rata between the two plans, in proportion to the member's service in each plan.

SECTION 4. AMENDMENT. Section 15-39.1-20 of the North Dakota Century Code is amended and reenacted as follows:

15-39.1-20. Withdrawal from fund.

When a member of the fund ceases to be eligible under the terms of this chapter to participate in the fund, the member may, after a period of one hundred twenty days, withdraw from the fund and is then entitled to receive a refund of assessments accumulated with interest. The one-hundred-twenty-day requirement may be waived by the board when it has evidence the teacher will not be returning to teach in North Dakota. The refund is in lieu of any other benefits to which the member may be entitled under the terms of this chapter, and by accepting the refund, the member is waiving any right to participate in the fund under the same provisions that existed at the time the refund was accepted regardless of whether the member later repurchases refunded service credit. A member or a beneficiary of a member may elect, at the time and under rules adopted by the board, to have any portion of an eligible rollover distribution paid directly in a direct rollover to an eligible retirement plan specified by the member or the beneficiary to the extent permitted by section 401(a)(31) of the Internal Revenue Code in effect on August 1, ~~2011~~2015.

MEMORANDUM

TO: TFFR Board

FROM: Fay Kopp

DATE: March 20, 2014

SUBJ: Interim Legislative Committees

1) Legislative Employee Benefits Programs Committee (LEBPC)

The LEBPC last met on November 6, 2013. At that meeting, TFFR's actuarial consultant, Segal Company, presented the 2013 valuation report. They also provided the Committee with an overview of the new GASB 67 and 68 standards, and potential impact on the State, school districts, and other political subdivisions.

The Committee is expected to meet again this spring after the April 1, 2014, deadline for submitting bill drafts. At their next meeting, they would likely take jurisdiction over the various bill drafts, and ask the plans (TFFR and PERS) to submit the bill drafts to Segal for actuarial analysis and technical review.

2) Legislative Audit and Fiscal Review Committee (LAFRC)

The LAFRC met on January 21, 2014. At the meeting, RIO's auditors, CliftonLarsonAllen, presented the audit report for the agency for the two fiscal years ended June 30, 2012 and June 30, 2013. Both reports were given an unqualified (unmodified) opinion, and there were few questions relating to the audit.

However, during the meeting, Dave Hunter, RIO Executive Director – Chief Investment Officer, was asked some investment questions relating to the various funds under SIB management. We were also asked to provide an analysis of the changes in TFFR's unfunded liability from 2007 to 2013, and to detail the reason for the changes.

Enclosed is a copy of the information we sent to the LAFRC pertaining to this request. It includes an email from Dave and me, a summary of the major factors impacting TFFR's funded ratio, and the January 30, 2014 letter from Segal who conducted the analysis. As expected, the Segal analysis shows that actual investment returns are responsible for nearly 77% of the decline in TFFR's funded ration during that period. The remaining shortfall resulted from actual contributions being less than normal cost plus interest (15%) and changes in actuarial assumptions (8%).

3) Legislative Government Finance Committee (LGFC)

The Legislative Government Finance Committee has been meeting regularly during the interim. One of the studies this Committee has been assigned is a study of the feasibility and desirability of existing and possible state retirement plans, including an analysis of both a defined benefit and defined contribution plan, with considerations and possible consequences for transitioning to a state defined contribution plan.

At previous meetings, the Committee has received information about different types of retirement plans used in other states; comparison of benefits under DB, DC, and hybrid plans; process used to discontinue the OASIS fund; and other related materials.

At their March 13, 2014 meeting, the Committee reviewed actuarial costs relating to the PERS defined benefit plan if state employees hired after January 1, 2016 would be required to participate in a defined contribution plan. They discussed options for requesting a third-party actuary to conduct a review of the actuarially calculated costs. They also received information about the new GASB standards.

Future meetings will likely include selection of an actuary to calculate/review costs of closing the State's DB plan, and discussion of the implications.

Enclosures

From:	Kopp, Fay L.
To:	Roppel, Darlene A.
Subject:	FW: TFFR Funded Ratio Analysis from 2007 to 2013
Date:	Wednesday, March 19, 2014 1:50:51 PM
Attachments:	NDTFFR Unfunded Liability Analysis.pdf TFFR Funded Ratio Shortfall from June 2007 to 2013.xlsx

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From: Hunter, David J.
Sent: Tuesday, February 04, 2014 5:53 PM
To: -Grp-NDLA Interim Legislative Audit & Fiscal Review
Cc: Kopp, Fay L.; Schulz, Darren J.
Subject: TFFR Funded Ratio Analysis from 2007 to 2013

LAFRC Members,

We reached out to TFFR's actuarial consulting firm (Segal Consulting) to provide an "Analysis of Change in TFFR's Unfunded Liability from 2007 to 2013" based on a request from Representative Maragos at the Legislative Audit and Fiscal Review Committee meeting on January 21, 2014. This 8-page letter is attached for review.

We also summarized the primary factors impacting TFFR's Funded Ratio during the last six years below (and in the Excel file attached):

1. Actual investment returns are responsible for nearly 77% of the decline in TFFR's Funded Ratio from July 1, 2007 to June 30, 2013.
2. The remaining shortfall resulted from actual contributions being less than normal cost plus interest (15%) and changes in actuarial assumptions (8%), the latter of which includes increased longevity.
3. Although actual net returns of over 2% (per annum) during the last six years were below our long-term 8% expected return, it is important to note that shorter-term and longer-term returns have exceeded 8%.
4. TFFR's investment returns exceeded 13% and 11% (per annum) for the 1- and 3-year periods ended June 30, 2013, in addition to exceeding 8% during the last 30 years.

We are available to discuss this matter in greater detail upon request.

Best regards,
Dave and Fay

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Major Factors Impacting the TFFR Funded Ratio between July 1, 2007 and June 30, 2013

1.) Investment Returns are responsible for nearly 77% of the decline in TFFR's Funded Ratio since 2007.

2.) Actual contributions being less than Normal Cost plus Interest accounted for 15% of this decline.

3.) Changes in actuarial assumptions, such as increased longevity, accounted for 8% of the decline.

4.) Although actual returns (of less than 2.5%) were below an expected 8% rate during the last six years, shorter-term (1- and 3-years) and long term (30 years) returns have exceeded 8%.

5.) TFFR's actual investment returns exceeded 13% and 11% (per annum) for the 1- and 3-year periods ended June 30, 2013, in addition to exceeding 8% during the last 30 years.

	Source: Segal Exhibit 1	2013	2012	2011	2010	2009	2008	2007
a / b	**Funded Ratio**	**58.8%**	**60.9%**	**66.3%**	**69.8%**	**77.7%**	**81.9%**	**79.2%**
	Market Value of Assets ($ millons)	$ 1,839.4	$ 1,654.1	$ 1,726.2	$ 1,437.9	$ 1,309.7	$ 1,846.1	$ 2,029.8
a	Actuarial Value of Assets	$ 1,762.3	$ 1,748.1	$ 1,822.6	$ 1,842.0	$ 1,900.3	$ 1,909.5	$ 1,750.1
b	Actuarial Value of Liability	$ 2,997.1	$ 2,871.9	$ 2,749.8	$ 2,637.2	$ 2,445.9	$ 2,330.6	$ 2,209.3
a - b	**Unfunded Actuarial Liability**	**$ (1,234.8)**	**$ (1,123.8)**	**$ (927.2)**	**$ (795.2)**	**$ (545.6)**	**$ (421.2)**	**$ (459.2)**
	Increase in TFFR Unfunded Liability	**$ 775.6**	**> See "Change" below.**					

	Source: Segal Exhibit 2	**Change from July 1, 2007 to June 30, 2013** %	$ (millions)	
1	**Actual Returns < Expected Return (of 8%)**	**77%**	**$ 596.2**	
2	**Actual Contributions < Normal Cost plus Interest**	**15%**	**$ 117.8**	
3	**Changes in Actuarial Assumptions / Methods**	**8%**	**$ 60.7**	
4	**Other including Benefit Plan Changes**	**0%**	**$ 0.8**	
	Increase in TFFR Unfunded Liability (from 2007 to 2013)	**100%**	**$ 775.6**	**< Change**

NOTE: Please see Chart 1 of the Segal Consulting Letter (dated January 30, 2014) in which the TFFR Funded Ratio is projected to improve to over 100% by 2043 based on an expected 8% investment return.

Source: Please see the Segal Consulting letter ("Segal") dated January 30, 2014, for further details including Exhibits 1 and 2.

Segal Consulting

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T 312.984.8500 www.segalco.com

January 30, 2014

VIA E-MAIL

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

Re: Analysis of Change in Unfunded Actuarial Accrued Liability from 2007 to 2013

Dear Fay:

As requested, we have studied the change in the North Dakota Teachers' Fund for Retirement's (TFFR) unfunded actuarial accrued liability over the period July 1, 2007 to July 1, 2013.

Background

As of July 1, 2007, the TFFR actuarial accrued liability totaled $2.21 billion. As of the same date, the actuarial value of assets totaled $1.75 billion, resulting in unfunded actuarial accrued liability (UAAL) of $0.46 billion. As of July 1, 2013 – the most recent actuarial valuation of TFFR – the actuarial accrued liability, actuarial assets and UAAL are $3.00 billion, $1.76 billion, and $1.24 billion, respectively. The UAAL has increased by $775.6 million since July 1, 2007 (i.e., $1.24 billion minus $0.46 billion).

In a typical defined benefit plan, the actuarial accrued liability is expected to increase over the course of time. This increase is due primarily to two factors:

- The liability increases by the value of additional benefits earned by active members each year, and
- The liability increases with interest as time passes.

The assets that support the liabilities are generally expected to increase as well, as contributions from members and employers (set by statute) are made and through returns on the Fund's investments (TFFR's investment return assumption is 8% per year).

If all actuarial assumptions are realized as expected, the UAAL from one year to the next will remain stable if the amount of contributions deposited into the Fund are equal to the normal cost (i.e., the value of benefits earned), plus interest on the UAAL. If all assumptions are realized, but actual contributions are more than normal cost plus interest on the UAAL, the UAAL will decrease. Conversely, if all assumptions are realized, but actual contributions are less than normal cost plus interest on the UAAL, the UAAL will increase.

Actual returns on investments or demographic experience that differ from that anticipated by the actuarial assumptions can lead to unexpected increases or decreases in the UAAL. An unexpected decrease in UAAL from experience different than assumed is an actuarial gain, while an unexpected increase is an actuarial loss. In addition, changes to the plan of benefits or changes to the actuarial assumptions can cause one-time increases or decreases in the UAAL.

Reconciliation of Funded Status

Exhibit 1 contains a history of the funded status of TFFR as of each valuation date from July 1, 2007, to July 1, 2013. For each year, the exhibit shows the market value of assets, actuarial value of assets (a "smoothed" asset value, which recognizes investment gains and losses over a five-year period), actuarial accrued liability, unfunded actuarial accrued liability and funded ratio (measured as the ratio of the actuarial value of assets to the actuarial accrued liability). This exhibit illustrates the steady increase in UAAL (and associated decline in funded ratio) from 2007 to 2013.

Exhibit 2 shows a year-by-year reconciliation of the changes in UAAL, as well as a total reconciliation from July 1, 2007, to June 30, 2013. As mentioned above, the change in UAAL from one year to the next can be categorized in one of five ways:

- The expected increase (or decrease) in UAAL due to actual contributions for the year that are less than (or more than) normal cost plus interest on the UAAL
- Increase/(decrease) due to an asset loss/(gain) for the year
- Increase/(decrease) due to a liability loss/(gain) for the year
- Increase/(decrease) due to benefit provision changes
- Increase/(decrease) due to actuarial assumption/method changes

Analysis

Member and employer contributions to TFFR are set by statute. For the past several years, the contribution rates have been less than normal cost plus interest on the UAAL. In this case, even if actual experience matches the assumptions, the UAAL would be expected to increase each year. In the years ending June 30, 2008, and June 30, 2009, actual contributions made to TFFR were relatively close to (but slightly less than) the normal cost plus interest on the UAAL for each year. Therefore, the expected increases in UAAL for 2008 ($8.6 million) and 2009 ($3.5 million) were relatively small. As the UAAL grew, the expected increases in UAAL grew, and totaled $117.8 million through 2013. As described below, member and employer contribution rates have been increased. Beginning July 1, 2014, the contribution rates will be more than the normal cost plus interest on the UAAL.

To the extent that the return on the actuarial value of assets is more than the 8% assumption, an actuarial gain due to investments is generated, which results in a decrease in the UAAL. Conversely, when the return on actuarial assets is less than 8%, an actuarial loss occurs, which results in an increase in the UAAL. As illustrated on Exhibit 3, line 8, the return on actuarial assets was less than 8% in five out of the six years between July 1, 2007, and June 30, 2013. The total increase in UAAL due to the net asset losses totaled $596.2 million.

The actuarial accrued liability is based on a set of assumptions related to future experience. For example, future salary increases for active members are assumed to occur at a certain pattern and members are assumed to live (and receive benefit payments from the Fund) for a certain length of time after retirement. Experience related to the actuarial accrued liability works in a way similar to that of the actuarial assets – favorable actual experience when compared to that expected by the assumptions results in actuarial gains while adverse actual experience results in actuarial losses. For example, if actual salary increases are less than anticipated, a liability gain occurs; if retired members and beneficiaries live longer than expected, a liability loss occurs. While we anticipate that from year to year, gains and losses will occur, we expect much of the experience to be offsetting. As illustrated on Exhibit 2, line 4, liability experience between July 1, 2007, and June 30, 2013 produced both actuarial gains and losses in a given year; the net experience totaled a liability loss of $20.7 million.

As a result of the 2009 legislative session, a supplemental payment was provided to individuals who retired before January 1, 2009, which increased the UAAL by $4.4 million.

Effective for the July 1, 2010 actuarial valuation, the TFFR Board adopted a set of assumption changes recommended by the actuary as part of a 5-year experience analysis. For example, the post-retirement mortality table, which impacts the expected duration that pension payments are made to retirees and beneficiaries, was updated to reflect improvements in overall rates of mortality. In addition, the probabilities of active members terminating or retiring at various ages were modified to better reflect anticipated future experience. The net impact of all the revised assumption changes was an increase in UAAL of $71.9 million.

In the 2011 legislative session, changes to TFFR were made that modified retirement eligibility conditions and increased early retirement benefit reductions for existing members that did not meet certain “grandfathering” criteria. These changes resulted in a decrease in UAAL of $24.3 million.

Effective with the July 1, 2013, actuarial valuation, the Board adopted an Actuarial Funding Policy, which provides direction on the calculation of an Actuarially Determined Contribution. Included in the Policy was a change in the way the actuarial accrued liability is measured. The impact of this change was a decrease in UAAL of $11.2 million.

The net impact on UAAL due to changes to benefit provisions between July 1, 2007, and July 1, 2013, was a decrease of $19.9 million. The net impact on UAAL related to changes in actuarial methods and assumptions over this period was an increase of $60.7 million.

Action

The biggest factor that has contributed to the increase in UAAL since 2007 is the cumulative effect of the investment market downturn in 2008-2009. Nearly all public sector defined benefit plans were negatively impacted by the market downturn to some degree. The North Dakota legislature and TFFR Board have taken action to improve the long-term funded position of the Fund in response to the low funded ratio experienced over the past several years.

Both the 2009 and 2011 legislative sessions included increases to both member (up to 11.75% effective July 1, 2014) and employer (up to 12.75% effective July 1, 2014) contribution rates that are effective until the Fund reaches a 100% funded ratio[1]. These are in addition to the delays in retirement eligibility and increased early retirement reductions mentioned earlier, which not only resulted in a one-time decrease to the UAAL, but also reduced the future normal cost of TFFR.

[1] Originally, the contribution increases were intended to sunset when the Fund reached a 90% funded ratio, but the 2013 legislative session extended the sunset target to a 100% funded ratio.

Also, as previously mentioned, the Board established an Actuarial Funding Policy in 2013, whereby an Actuarially Determined Contribution (ADC) will be compared to the statutory contribution rates to measure funding adequacy. The new ADC measure is based on an actuarial contribution that is intended to cover annual normal cost, and fully amortize the UAAL over a "closed" 30-year period that began July 1, 2013.

The attached Chart 1 includes a history of the funded ratio from July 1, 1983, through July 1, 2013, and a projection of future funded ratios assuming that investments earn 7%, 8% or 9% per year each year in the future. Under all three investment return scenarios, TFFR's funded ratio is expected to improve over time as a result of the action taken by the legislature and Board.

Please do not hesitate to contact us with any questions.

Sincerely,

Kim Nicholl

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

Matthew A. Strom

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

EXHIBIT 1

North Dakota Teachers' Fund for Retirement
Summary for 2007-2013 Plan Years ($ in millions)

		Actuarial Valuation as of July 1						
		2013	2012	2011	2010	2009	2008	2007
Funded Status:								
1	Market value of assets, current year	$ 1,839.6	$ 1,654.1	$ 1,726.2	$ 1,437.9	$ 1,309.7	$ 1,846.1	$ 2,029.8
2	Actuarial value of assets, current year	1,762.3	1,748.1	1,822.6	1,842.0	1,900.3	1,909.5	1,750.1
3	Actuarial accrued liability, current year	2,997.1	2,871.9	2,749.8	2,637.2	2,445.9	2,330.6	2,209.3
4	Unfunded actuarial accrued liability, current year: (3)-(2)	1,234.8	1,123.8	927.2	795.2	545.6	421.2	459.2
5	Funded ratio, current year: (2)/(3)	58.8%	60.9%	66.3%	69.8%	77.7%	81.9%	79.2%

North Dakota Teachers' Fund for Retirement
Summary for 2008-2013 Fiscal Years ($ in millions)

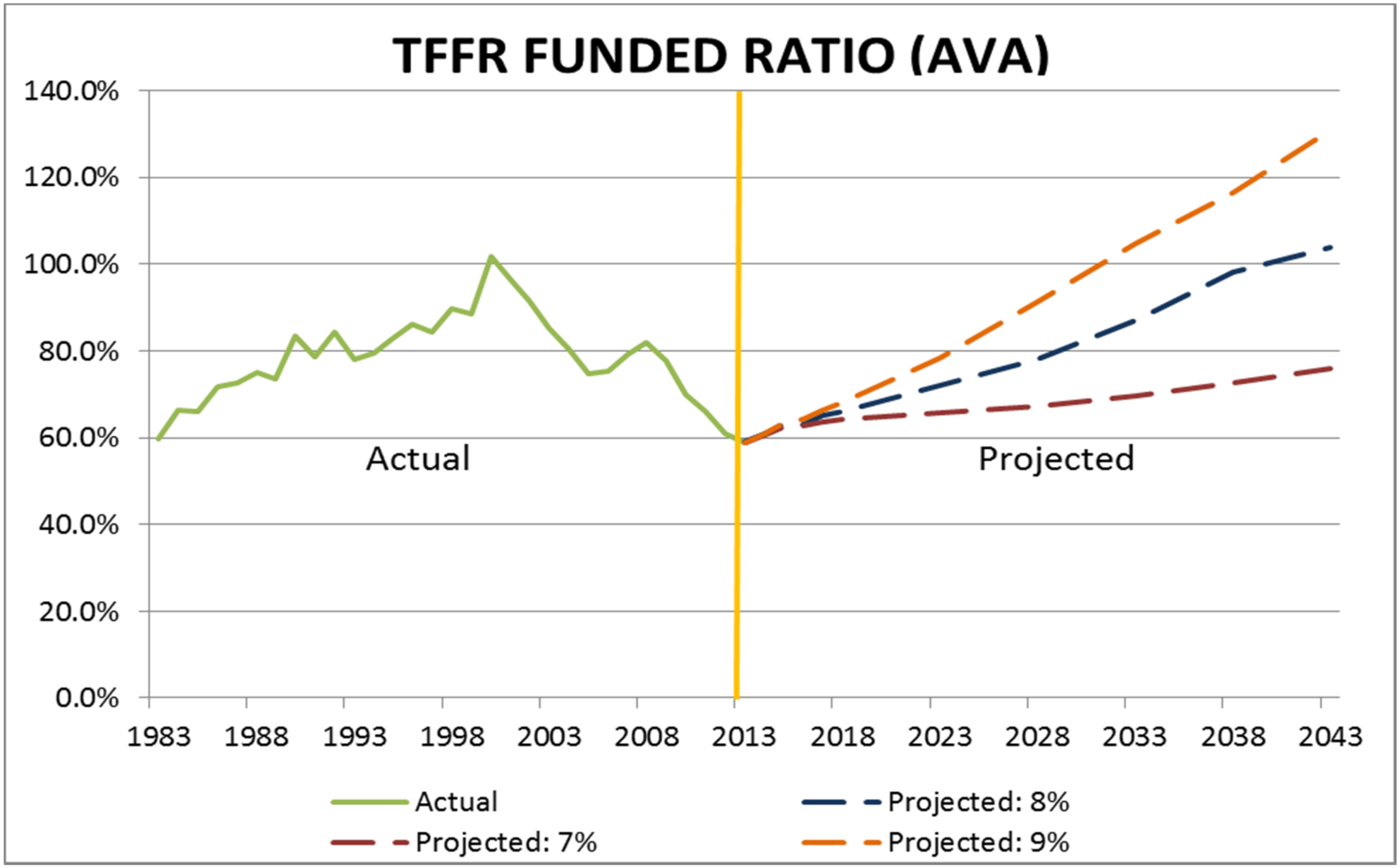
		TOTAL 7/1/2007 to 6/30/2013	7/1/2012 to 6/30/2013	7/1/2011 to 6/30/2012	7/1/2010 to 6/30/2011	7/1/2009 to 6/30/2010	7/1/2008 to 6/30/2009	7/1/2007 to 6/30/2008
	Reconciliation of Unfunded Actuarial Accrued Liability (UAAL)							
1	UAAL at the beginning of the period	$ 459.2	$ 1,123.8	$ 927.2	$ 795.2	$ 545.6	$ 421.2	$ 459.2
2	Expected increase/(decrease) in UAAL*	117.8	26.7	37.0	29.9	12.1	3.5	8.6
3	Increase/(decrease) due to asset loss/(gain) for the year	596.2	91.1	169.4	120.2	159.5	118.3	(62.4)
4	Increase/(decrease) due to liability loss/(gain) for the year	20.7	4.3	(9.8)	6.2	6.1	(1.8)	15.7
5	Increase/(decrease) due to benefit provisions changes	(19.9)	0.0	0.0	(24.3)	0.0	4.4	0.0
6	Increase/(decrease) due to assumption/method changes	60.7	(11.2)	0.0	0.0	71.9	0.0	0.0
7	Total increase/(decrease) for the period	775.6	111.0	196.6	131.9	249.6	124.4	(38.0)
8	UAAL at the end of the period: (1)+(7)	$ 1,234.8	$ 1,234.8	$ 1,123.8	$ 927.2	$ 795.2	$ 545.6	$ 421.2

* Expected increase (or decrease) in UAAL due to actual contributions for the year that are less than (or more than) normal cost plus interest on the UAAL.

North Dakota Teachers' Fund for Retirement
Summary for 2008-2013 Fiscal Years ($ in millions)

		Year Ending June 30					
		2013	2012	2011	2010	2009	2008
	Reconciliation of Actuarial Value of Assets:						
1	Actuarial value of assets, beginning of period	$ 1,748.1	$ 1,822.6	$ 1,842.0	$ 1,900.3	$ 1,909.5	$ 1,750.1
2	Contributions (member and employer) for the year	115.8	88.8	84.9	78.1	74.4	70.6
3	Benefit payments and administrative expenses for the year	(149.0)	(137.7)	(129.6)	(127.0)	(116.3)	(112.0)
4	Net investment income based on asset valuation method	47.4	(25.6)	25.4	(9.4)	32.8	200.7
5	Actuarial value of assets, end of period	1,762.3	1,748.1	1,822.6	1,842.0	1,900.3	1,909.5
	Calculation of Return and Investment Gain or Loss:						
6	Average actuarial value of assets for the year	$ 1,731.5	$ 1,798.1	$ 1,819.6	$ 1,875.9	$ 1,888.5	$ 1,729.5
7	Net investment income based on asset valuation method: (4)	47.4	(25.6)	25.4	(9.4)	32.8	200.7
8	Estimated actuarial value yield	2.7%	-1.4%	1.4%	-0.5%	1.7%	11.6%
9	Expected actuarial value yield	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
10	Expected net investment income: (6)x(9)	138.5	143.9	145.6	150.1	151.1	138.4
11	Asset loss/(gain) for the year: (10)-(7)	91.1	169.4	120.2	159.5	118.3	(62.4)

North Dakota Teachers' Fund for Retirement
History and Projection of Funded Ratio



MEMORANDUM

TO: TFFR Board
FROM: Fay Kopp
DATE: March 20, 2014
SUBJ: GASB 67 and 68 Implementation Update

NDTFFR, NDPERS, and the State Auditor's Office (SAO) continue to have discussions relating to implementing the new pension reporting standards, Governmental Accounting Standards Board (GASB) Statements No. 67 and 68. Many of the discussions include plan actuaries (Segal for both TFFR and PERS), and plan auditors (Clifton Larson Allen for TFFR and Brady Martz for PERS). Similar discussions are happening with other pension plans, actuaries, and auditors around the country.

GASB has now issued Implementation Guides for both standards:

- GASB No. 67 guidance became available in June 2013
  (to be implemented in 2014 plan financial statements).

- GASB No. 68 guidance became available January 30, 2014
  (to be implemented in 2015 employer financial statements).

Additionally, the American Institute of Certified Public Accountants (AICPA) released two whitepapers in February 2014 addressing the standards. Numerous questions still remain, particularly relating to coordination between plan auditors and employer auditors. Questions and issues continue to evolve, and we are waiting for more guidance from the audit community. It is interesting to note that the Governmental Finance Officers Association (GFOA) has recently approved a formal resolution asking GASB to delay implementation of GASB No. 68, primarily due to audit issues and guidance needed. However, until we hear otherwise, we are moving forward with implementation plans.

The AICPA has recommended that the plan actuary calculate the information needed by individual employers for GASB 68. Much of this information will already be calculated for the plan financial statements due to GASB 67, however more detailed financial information would be needed for employers. More discussion, clarification, and decisions need to be made. Questions remain – and the answers depend on guidance that has not been given yet. Who will need to do what, and at what cost? Will it be the plan staff, plan actuary, plan auditor, employer, or employer auditor? What we do know is that actuarial calculations, schedules, and disclosures for GASB 67 and 68 will increase TFFR actuarial costs significantly, particularly in the first few years of implementation. Additionally, audit fees will also increase due to the additional work required to implement new GASB standards.

As I outlined in January, we (TFFR, PERS, SAO) are planning to host an implementation meeting with a small group of TFFR and PERS employers and auditors, possibly in June 2014. We are then planning to facilitate training for all employers, possibly in November 2014. We will likely webcast the training for availability on TFFR and PERS websites.

I have also met with representatives of NDU, NDCEL, and NDSBA regarding the new standards, and potential implications on school district financial statements. The organizations are very supportive of our efforts to educate stakeholders, and will allow us to include information in their newsletters, presentations at their conferences, and other assistance as needed.

Enclosures

<u>Resolution of the Executive Board of the Government Finance Officers Association</u>

Call for a Delay in the Implementation of GASB Statement No. 68 Until Authoritative Auditing Guidance Is Approved and In Place for a Sufficient Time To Allow Auditors to Issue Unmodified Opinions on Employer Financial Statements

Whereas, as the result of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, state or local governments that offer defined benefit pensions will, for the first time, be required to report a net pension liability and related accounts in their financial statements;

Whereas, for most governments in this situation, the amounts reported will be substantial and, accordingly, the independent auditors of such governments will need to obtain reasonable assurance of the reliability of those amounts in order to give an unmodified ("clean") opinion on the financial statements;

Whereas, a unique aspect of public-sector pensions is the existence of independently governed, managed, and audited pension plans and the employer's auditor must now obtain adequate evidence to support an opinion on information that is produced by an independent organization, the pension plan;

Whereas, this is especially challenging for auditors of governments that participate in multiple-employer pension plans that administer up to several thousand plans;

Whereas, the necessary authoritative auditing guidance to coordinate audit procedures between plan and employer auditors has not yet been provided, making it all but impossible for the employer auditors to obtain the assurance they need regarding pension-related amounts in time for the audit of the first financial statements prepared in conformity with GASB Statement No. 68;

Whereas, unless the effective date of GASB Statement No. 68 is deferred, governments in multiple-employer pension plans almost certainly can expect to receive a modified opinion on the fair presentation of their financial statements, through no fault of their own or of their auditor;

Whereas, the threat of a modified opinion also could result in governments significantly delaying the issuance of their financial statements as they seek solutions, consider ramifications (e.g., continuing disclosure requirements, disqualification from "low-risk auditee" status for purposes of the Federal Single Audit), or set times to brief elected bodies prior to issuance; and

Whereas, the Government Finance Officers Association believes that creating a situation where thousands of governments receive modified audit opinions as the direct result of the implementation of GASB Statement No. 68, through no fault of their own or of their auditor, would confuse, rather than enlighten, financial statement users and would be inconsistent with the GASB's objective of improving public confidence in the reliability of financial reporting for pensions;

Now, therefore, be it resolved that the GFOA urges the GASB to defer the implementation date of GASB Statement No. 68 for as long as necessary to permit the implementation of pending authoritative auditing guidance so as to allow auditors to obtain the information necessary to support the reliability of pension-related amounts in employer financial statements.

--- Approved by the GFOA Executive Board February 28, 2014

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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GASB Encourages Planning, Preparation, and Collaboration On New Pension Statements

With new public pension accounting and financial reporting standards set to take effect in 2013 and 2014, state and local public officials and pension plan administrators should take steps now to ensure that they are well prepared to implement those requirements.

The Governmental Accounting Standards Board (GASB), which issued the new standards, has identified several areas that public officials and plan administrators should consider as they prepare for implementation.

Those areas include:

- Pension funding policy
- Selection of assumptions
- Timing of measurements
- Timing of actuarial valuations
- Development of information for employer reporting.

The GASB recently approved Statement No. 67, *Financial Reporting for Pension Plans*, which applies to pension plans that administer pension benefits, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which applies to governments that provide pension benefits to their employees. The new pension standards introduce a wide array of enhancements to financial reporting that will result in significant changes in the type and form of information collected and reported by pension plans and governmental employers.

To prepare for these upcoming financial reporting changes, the GASB encourages pension plans and governmental employers that have not yet begun the implementation process to become familiar with the new standards and to initiate discussions that address the key implementation issues highlighted below.

GASB Chairman Robert H. Attmore noted that "based on constituent feedback received during the Board's extensive public due process, the need for all parties involved to engage in significant coordination and collaboration became quite evident to the GASB. Due to the significant efforts that are needed to successfully implement the new pension standards, the Board extended the transition period for most governments to allow for a reasonable time for transition," the chairman added.

Challenges facing pension plans and employers that provide pensions through those plans may vary depending upon whether the plan is a single-employer, agent multiple-employer, or cost- sharing multiple-employer plan. However, certain common issues also exist for all types of plans and employers. Key areas to be considered by all types of plans and employers include the following:

- ***Funding policy.*** Statements 67 and 68 remove the direct link between measurements for funding purposes and measurement of pension expense for accounting and financial reporting purposes. For governments that have actuarially based funding policies, the measurement requirements of the new Statements for financial reporting purposes will include an actuarial valuation likely different from (and in addition to) the actuarial valuation that is used for funding purposes.

  For governments whose funding policies are defined relative to the requirements for determination of an annual required contribution (also referred to as an ARC) in Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* consideration will need to be given to whether funding policies should continue to be based on the Statements 25 and 27 ARC or whether they should be defined independently.

  Further, for certain measurements required by Statement 68—for example, determination of the discount rate to be used for purposes of measuring an employer's total pension liability (discussed further below)—the employer's funding policy has an impact, and a clearly expressed funding policy will facilitate implementation of those requirements.

- ***Selection of assumptions.*** Similar to the requirements of earlier pension standards, Statement 68 requires that when the same or similar measures are required to be reported by both the pension plan and employers that provide benefits through that plan, the assumptions used to determine those measures be the same. Therefore, coordination will be necessary between pension plans and employers when measurements of the net pension liability of the employers are made. Assumptions integral to the measurement of an employer's pension liability include the long-term expected rate of return on pension plan investments, which plays a potentially significant role in the determination of the discount rate.

- ***Timing of measurements.*** To meet the requirements of the new Statements, single-employer pension plans, cost-sharing multiple-employer pension plans, and single, agent, and cost- sharing employers will need to report information about the net pension liabilities of the employers. For pension plans that are required to present information about the liabilities of the employers, the net pension liability is required to be measured as of the end of the pension plan's fiscal year. Employers, however, are provided with additional flexibility with regard to the "as of" (or "measurement") date of the net pension liability reported in its financial statements each period. That is, an employer may report a pension liability measured between the end of the employer's prior fiscal year and its current fiscal year-end (for example, as of the pension plan's fiscal year-end). Because information about pension plan net position is needed to measure the employer's net pension liability, in pension plans in which the same fiscal year-end is not shared among the employers and the plan itself, coordination of the employers' measurement date will be necessary.
- ***Timing of actuarial valuations.*** Statements 67 and 68 require that actuarial valuations for financial reporting purposes be prepared at least every two years; however, the timing of the actuarial valuation relative to the fiscal year-end for which information based on the results of that valuation is reported might differ for plans and employers. For pension plans, the actuarial valuation date can be no more than 24 months prior to the plan's fiscal year-end, and for employers, the actuarial valuation date can be no more than 30 months earlier than the employer's fiscal year-end. In circumstances in which pension plan and employer fiscal year-ends are different, attention to the timing of the actuarial valuation date relative to those fiscal year-ends will be necessary to ensure that the actuarial valuation date, in conjunction with the measurement date (discussed above), will fall within the timing requirements of the new Statements.
- ***Development of information for employer reporting.*** Statement 68 requires some employers to report certain information that also is required by Statement 67 to be reported by the pension plan (for example, single employers will disclose information about the sources of change in the net pension liability in the current period—information that also will be presented in a schedule of required supplementary information by the single-employer pension plan). Other information that will be reported by certain employers will be derived from information that will be reported by the pension plan but will not itself be reported by the pension plan (for example, single-employer and cost-sharing employer pension expense). Key considerations relative to the information needed for employer financial statements will be which entity will prepare the information, which entity will incur the cost to develop this information, and the roles that each entity's auditors will play in providing appropriate assurance on that information.

Additional considerations that might be primarily relevant to cost-sharing pension plans and employers include the following:

- ***Information to determine employers' proportionate shares.*** Financial reporting by cost- sharing employers will require the determination of each employer's proportionate share of the pension liability associated with all employees provided with benefits through the pension plan (the collective net pension liability). Statement 68 encourages the use of each employer's projected long-term relative share of contributions to the plan as the basis for establishing each employer's proportion for this purpose. However, the Statement also provides flexibility, noting that any measure associated with the manner in which contributions are assessed may be used as the basis for an employer's proportion. Because an employer's proportion is a measure of its contribution responsibility relative to all contributing governments, regardless of the basis that is selected, information about the plan as a whole will be needed to meet the Statement 68 requirements.

  As discussed more broadly above, pension plans and employers, in consultation with the plan's actuary and the plan and employer auditors, also will need to evaluate the role that the pension plan and its actuary will take in several areas, including determining each employer's proportion, measurement of collective pension expense and collective deferred outflows of resources and deferred inflows of resources, and calculations that are necessary for each employer individually. (For example, each employer is required to identify the effects of changes in its individual proportion from period to period.) If information for employer reporting purposes will be provided by the pension plan and its actuary, another key consideration will be the establishment of procedures that will support the needs of auditors of the employers' financial statements to ensure that they can express an opinion on that information.

In circumstances in which the pension plan does not currently interact directly with the employers (for example, when a separate intermediary agency coordinates collection of contributions from individual employers and the transmission of those contributions to the pension plan), the pension plan might not have information to identify the activities of any one individual employer. Coordination among the pension plan, intermediaries, and individual employers will be necessary to ensure that information is available to employers to meet the new requirements.

- ***Identification of the reporting responsibility for pensions in circumstances in which a nonemployer entity is involved.*** Statement 68 differentiates financial reporting requirements for employers and nonemployer entities depending upon the form the nonemployer entity's involvement takes. In certain circumstances in which a nonemployer entity has a legal requirement to make contributions to support pensions, the nonemployer entity will be required to recognize a proportionate share of the employer's pension liability, and the employer's recognized liability will be reduced. These situations will need to be evaluated to appropriately classify the arrangements for financial reporting purposes.

Additional information about the new pension Statements, including a series of fact sheets, the full text of the documents, an article providing a high-level overview of key provisions of the Statements, and information on how to order hard copies, is available on the GASB website, gasb.org.

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New GASB Pension Statements to Bring about Major Improvements in Financial Reporting

In June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans,* addresses financial reporting for state and local government pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions,* establishes new accounting and financial reporting requirements for governments that provide their employees with pensions.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision-usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments.

Statement 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* for most public employee pension plans. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* for most government employers. The new Statements also replace the requirements of Statement No. 50, *Pension Disclosures,* for those governments and pension plans.

Background

To ensure that GASB pronouncements continue to be of high quality and are in sync with the continuously evolving government environment, the GASB periodically reexamines its standards. Reexamination typically takes place after a Statement has been in place and fully implemented for at least five years. Research on the GASB's pension standards indicated opportunities for significant improvement.

Governments provide pension benefits through various types of *defined benefit* pension plans, which specify the *amount of benefits* to be provided to the employees after the end of their employment. *Single-employer* pension plans provide pension benefits to the employees of one employer (a *single employer*). *Multiple-employer* pension plans provide pension benefits to the employees of more than one employer. Under an *agent* multiple-employer pension plan, the assets of a multiple-employer pension plan are pooled for investment purposes but separate "accounts" are maintained for each individual *agent employer,* so that each agent employer's share of the pooled assets is legally available to pay the pensions of only its employees. In a *cost-sharing* multiple-employer pension plan, *cost-sharing employers* share their assets and their obligations to provide pension benefits to their employees—plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan. The new Statements address all of these types of plans, as well as *defined contribution* plans, which stipulate the amount to be contributed to employee accounts each year, not the amount of benefits that will be paid in the future.

The Statements apply specifically to governments and pension plans in which a government's contributions to the trust used to administer a pension plan are (a) irrevocable, (b) restricted to paying pension benefits, and (c) are beyond the reach of creditors. Pension benefits provided through trusts that do not meet those three criteria are not addressed in these new Statements and those pension benefits would continue to be accounted for and reported following Statements 25, 27, and 50.

It is important to note that the new Statements relate to *accounting and financial reporting* issues only—how pension costs and obligations are measured and reported in audited external financial reports. The Statements do not address how governments approach pension plan *funding*—a government's policy regarding how much money it will contribute to its pension plan each year. While there has been a close relationship between how governments fund pensions and how they account for and report information about them until now, the new guidance establishes a decided shift from the *funding-based* approach to an *accounting-based* approach. The Board crafted its new Statements with the fundamental belief that funding is squarely a policy decision for elected officials to make as part of the government budget approval process.

Reporting by Governments in Defined Benefit Plans

Recognizing a Liability Related to Pension Promises for Single and Agent Employers

State and local government employees often earn two types of compensation in return for their efforts—current compensation and deferred compensation. Salaries and other forms of current compensation reflected in the paycheck are received by employees during their employment. On the other hand, deferred compensation, including pension benefits, is not received until after the employee's tenure with the government has concluded and vesting and age requirements have been met.

Nevertheless, a government has a present obligation to pay these deferred benefits in the future—a *total pension liability*—once they have been earned. When the total pension liability exceeds the pension plan's net assets (now referred to as plan net position) available for paying benefits, there is a *net pension liability*. Governments will now be required to report that amount as a liability in their accrual-based financial statements (for example, the government-wide statement of net position). The pension plan's net position available for paying benefits is to be measured using the same valuation methods that are used by the pension plan for purposes of preparing its financial statements, including measuring investments at fair value.

This is an important change that will more clearly depict the government's financial position. While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed. Reporting the net pension liability (or asset, if plan net position exceeds the total pension liability) on the face of the financial statements will more clearly portray the government's financial status because the pension liability will be placed on an equal footing with other long-term obligations.

Measuring the Pension Liability

The new pension standards reflect several changes from those currently in place regarding how governments calculate their total pension liability. The measurement process detailed in the new standards involves three essential steps:

1. Projecting future benefit payments for current and former employees and their beneficiaries
2. Discounting those payments to their present value
3. Allocating the present value over past, present, and future periods of employee service.

The standards continue the general existing practice of incorporating expectations of future employment-related events into projections of pension benefit payments—like projected salary increases and projected years of service—if they affect the amount of pension payments employees will receive. Provisions for automatic cost- of-living adjustments (COLAs) and other automatic benefit changes (which generally are written into the pension benefit terms) will also continue to be included in projections. On the other hand, *ad hoc* COLAs and other ad hoc benefit changes—which are made at the discretion of the government—will only be included in projections if they occur with such regularity that they are effectively automatic.

To discount projected pension benefit payments to a present value, governments assume a *discount rate*. Standards now in effect require governments to apply a discount rate equal to the long-term expected rate of return on the investments of the pension plan. The long-term expected rate of return will continue to be the starting point for the discount rate. However, the new standard makes it clear that this rate should be applied only to available pension plan assets that are expected to be invested using a strategy to achieve that return.

To the extent that a pension plan's net position and projected contributions associated with active and inactive employees, including retirees, is expected to fully cover projected benefit payments for those individuals, the long-term expected rate of return will be used. If there comes a point in the projections when plan net position and contributions related to active and inactive employees is no longer projected to be greater than or equal to projected benefit payments related to those employees and administrative expenses, then from that point forward a government would be required to discount the projected benefit payments using a municipal borrowing rate—a tax- exempt, high-quality (an average rating of AA/Aa or higher, including equivalent ratings) 20-year general obligation bond index rate.

Finally, benefit payments—discounted to their present value—are allocated to past, current, and future periods. The new standards require all governments to use the entry age actuarial cost method to allocate present value, and to do so as a level percentage of payroll. Under this method, the present value of projected benefits is attributed to employees' expected periods of employment starting from when employees first begin to earn benefits.

Calculating Pension Expense

A government's net pension liability varies from year to year for a variety of reasons, including actual earnings on plan investments, employee compensation changes, interest on the outstanding pension liability, contributions from employers and employees, and actual economic or demographic changes not matching up with assumptions made in the actuarial calculations. When these period-to-period changes should be included in the calculation of the cost of a government's operations—as expenses in the accrual-based financial statements—is a key issue.

The new standards will better align the recognition of pension expense with the period in which the related benefits are earned. Considered in total, the changes set forth by the GASB will have the overall effect of expense recognition being accelerated. Under the new standards, several causes of change in the net pension liability will be factored into the calculation of pension expense immediately in the period in which the change occurs:

1. Benefits earned each year
2. Interest on the total pension liability
3. Changes in benefit terms
4. Projected earnings on plan investments
5. Changes in plan net position from other than investments

The effects on the total pension liability of (a) changes in assumptions and (b) differences between assumptions and actual experience are to be recognized initially as deferred outflows of resources or deferred inflows of resources and then introduced into the expense calculation systematically and rationally over the average remaining years of employment of employees (active employees and inactive employees, including retirees). This period is likely to be significantly shorter than the period of up to 30 years over which governments may now recognize portions of their pension expense.

The difference between the expected earnings on plan investments and actual investment earnings is to be recognized as deferred outflows of resources or deferred inflows of resources and included in expense in a systematic and rational manner over a five-year closed period rather than longer periods that are allowed under the current standards.

Reporting by Governments in Cost-Sharing Multiple-Employer Plans

Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Note Disclosures and Required Supplementary Information

The new standards contain requirements for disclosing information in the notes to the financial statements and presenting required supplementary information (RSI) following the notes. Due to the complexity of the array of pension plan features, the Board concluded it was critical that financial statement users have access to certain basic plan information through governments' own financial statements. The Board believes that including this information will enhance the usefulness of financial reports for both decision making and assessing accountability.

All governments participating in a defined benefit pension plan will now include the following information in their note disclosures:

- Descriptions of the plan and benefits provided
- Significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Assumptions related to the discount rate and the impact on the total pension liability of a 1 percentage point increase and decrease in the discount rate
- Net pension liability and deferred outflows of resources and deferred inflows of resources.

Single and agent governments also will be required to disclose, for the current period, the beginning and ending balances of the net pension liability, and the effects of changes during the period (such as the effects of service cost, benefit changes, and actual investment earnings).

Single and agent governments will be required to present RSI schedules with the following information for each of the past 10 years (generally on a prospective basis):

- The beginning and ending balances of the total pension liability, the plan trust's net position, and the net pension liability, and their components

- Total pension liability, the plan's net position, the net pension liability, a ratio of the plan's net position to the total pension liability, the covered-employee payroll, and a ratio of the net pension liability as a percentage of the covered-employee payroll.

If a single, agent, or cost-sharing government has an actuarially determined annual pension contribution (or, if not actuarially determined, then the statutorily determined contribution), it is also required to present an RSI schedule with the following information for each of the past 10 years (generally on a prospective basis): (1) the actuarially determined annual pension contribution (or, if not actuarially determined, then the statutorily determined contribution), (2) the amount of employer contribution actually made, (3) the difference between 1 and 2, (4) the payroll of employees covered by the plan, and (5) a ratio of 2 divided by 4.

Governments are also now required to present notes to the RSI schedules regarding factors that significantly affect the trends in the schedules. For single and agent employers, significant assumptions also should be disclosed.

Special Funding Situations

Special funding situations are circumstances in which (a) a *nonemployer contributing entity* (such as a state government) is legally responsible for contributions directly to a pension plan that is used to provide pensions to the employees of another government (such as school districts located within that state) and (b) one or both of the following is true:

1. The nonemployer is the only entity with a legal obligation to make contributions directly to the plan
2. The amount of the contributions for which the nonemployer is legally responsible is not dependent upon one or more events unrelated to the pensions.

In a special funding situation, the nonemployer has essentially assumed a portion of the employer entity's pension obligation as its own. Consequently, if the nonemployer is a government, it will recognize its proportionate share of the net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to the employer's pensions in its own financial statements.

The government benefitting from the nonemployer's contributions in a special funding situation will calculate its net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions prior to the nonemployer government's support, but would *recognize* in its financial statements only its proportionate share.

Reporting by Governments in Defined Contribution Plans

As previously noted, defined *contribution* plans stipulate the *amount to be contributed to an employee's account* each year, and not the amount of benefits employees will receive after the end of their employment. The new standards generally carry forward the existing requirements regarding defined contribution pensions. Governments will report an expense equal to the amount they are required to contribute for employee service each year and a liability equal to the difference between that required contribution and what the government actually contributes. Governments will also make descriptive disclosures about the plan and its terms, and the method by which contributions to the plan are determined.

Reporting by Pension Plans

Statement No. 67 on plan reporting details guidance for financial reporting by *defined benefit pension plans* administered through trusts that meet the criteria described earlier. This guidance generally carries forward the present framework for the separately issued financial reports of defined benefit pension plans. Statement 67 will significantly improve related financial reporting through enhanced note disclosures and new RSI schedules. The Statement also details note disclosure requirements for *defined contribution pension plans* administered through trusts that meet the criteria.

Effective Dates

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013 (that is, for years ended June 30, 2014 or later). Statement No. 68 will take effect for employers and governmental nonemployer contributing entities in fiscal years beginning after June 15, 2014 (that is, for years ended June 30, 2015 or later). However, the GASB encourages plans and governments to implement the new standards earlier.

Obtaining the New Statements

The new Statements should be available in early August to download free from the GASB website (www.gasb.org) or to purchase in printed form.

- Order a printed copy of Statement 67
- Order a printed copy of Statement 68
- Read the news release

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Q&A REPORTING BY PENSION PLANS

1 WHAT NEW REQUIREMENTS REGARDING FINANCIAL REPORTING WILL STATE AND LOCAL GOVERNMENT PENSION PLANS BE IMPLEMENTING?

The Governmental Accounting Standards Board (GASB) approved Statement No. 67, *Financial Reporting for Pension Plans,* in June 2012. The Statement is available free of charge at www.gasb.org. (Separate fact sheets describe the GASB's new pension standards for government employers that provide pension benefits to their employees.) Statement 67 contains guidance for pension plans that prepare and issue their own financial reports, as well as for plans that are reported as a fiduciary fund by a government.

2 WHICH PENSION PLANS WILL BE REQUIRED TO IMPLEMENT THE NEW STATEMENT?

The new Statement specifically applies to pension plans that administer benefits through trusts that meet all three of the following criteria:

- Contributions from employers (and by other governments and entities on behalf of the employers) are irrevocable
- Assets in the trust are dedicated to providing pension benefits to the plan members
- Assets in the trust are protected from the creditors of the employers (and other contributing governments and entities), the plan administrator, and the plan members (for defined benefit pensions).

The vast majority of government pensions are administered through trusts meeting these requirements. The GASB is currently deliberating proposals regarding pensions that are outside scope of these Statements.

The new Statement applies primarily to defined benefit pension plans, which are used to administer pensions that specify the benefits to be provided to the employees after the end of their employment. By contrast, defined contribution plans administer benefits that stipulate only the contributions to an active employee's account each year. Statement 67 applies to both single-employer defined benefit plans and multiple-employer defined benefit plans.

The assets administered by an agent multiple-employer plan are pooled for investment purposes but separate accounts are maintained for each individual participating employer. As a result, each participating employer's share of the pooled assets is legally available to pay the defined benefit pensions of only its retirees.

In a cost-sharing multiple-employer plan, on the other hand, the participating employers pool both their assets and their obligations to provide pension benefits—meaning that plan assets can be used to pay the defined benefit pensions of the retirees of any participating employer.

3 WHAT FINANCIAL STATEMENTS WILL A DEFINED BENEFIT PENSION PLAN PRESENT?

In most respects, the requirements for pension plan financial statements remain unchanged from the prior standards. A defined benefit pension plan will present two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position.

The statement of fiduciary net position reports on a pension plan's financial position as of the end of the fiscal year and contains the following information:

- Assets, such as cash, receivables from employers and plan members, investments (measured at fair value), and equipment and other assets used in pension plan operations
- Deferred outflows of resources
- Liabilities, such as benefit payments due to plan members
- Deferred inflows of resources
- Fiduciary net position, which equals assets, plus deferred outflows of resources, minus liabilities, minus deferred inflows of resources.

The statement of changes in fiduciary net position reports on the inflows and outflows of resources that increased and decreased its net position, respectively, and contains the following information:

- Additions, such as contributions from employers and plan members, and net investment income
- Deductions, such as benefit payments and administrative expense
- Net increase (decrease) in fiduciary net position, which equals the difference between additions and deductions.

4 WHAT DOES STATEMENT 67 REQUIRE DEFINED BENEFIT PENSION PLANS TO DISCLOSE IN THE NOTES TO THEIR FINANCIAL STATEMENTS?

All defined benefit pension plans will disclose information that includes the following:

- Descriptive information, such as the types of benefits provided, the classes of plan members covered, and the composition of the pension plan's board
- Pension plan investment information, such as the pension plan's investment policies, how fair value is determined, concentrations of investments with individual organizations equaling or exceeding 5 percent of the pension plan's fiduciary net position, and the annual money-weighted rate of return on pension plan investments
- Other information, such as contributions, reserves, and allocated insurance contracts.

Single-employer and cost-sharing plans will disclose additional information, such as:

- The total pension liability of the participating employers, the pension plan's fiduciary net position, the net pension liability, and the pension plan's fiduciary net position as a percentage of the total pension liability
- Significant assumptions used to measure the total pension liability, such as inflation, salary changes, discount rate, and mortality.

Agent plans will not make these latter disclosures because separate measures of each participating employer's total pension liability, share of plan net position, and net pension liability are determined.

Aggregated information about these measures for all employers obscures the information about an individual employer, yet it would not be practical to make disclosures for each one.

5 WHAT DOES STATEMENT 67 REQUIRE DEFINED BENEFIT PENSION PLANS TO PRESENT AS REQUIRED SUPPLEMENTARY INFORMATION?

Single-employer and cost-sharing plans will present schedules of required supplementary information following the notes. The schedules will contain the following information for each of the past 10 years:

- The beginning and ending balances of the total pension liability, the plan's net position, and the net pension liability, as well as the change in those amounts during the year presented by cause (for example, service cost)
- A ratio of plan net position divided by the total pension liability, the payroll amount for current employees in the plan (covered-employee payroll), and a ratio of the net pension liability divided by covered- employee payroll
- If contributions to the plan are actuarially determined: the employers actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered-employee payroll.

All defined benefit pension plans will present a 10-year schedule containing the annual money-weighted rate of return on pension plan investments for each year.

6 WHAT DOES STATEMENT 67 REQUIRE DEFINED CONTRIBUTION PENSION PLANS TO DISCLOSE?

Statement 67 requires defined contribution plans to present a less extensive set of note disclosures containing the classes of plan members covered, the number of plan members, participating employers, and nonemployer contributing entities, and the authority under which the pension plan is established and may be amended.

7 WHEN WILL PENSION PLANS BEGIN REPORTING UNDER THE NEW STANDARDS?

Pension plans are required to put the new standards into effect beginning in fiscal years ending June 30, 2014, and later. The GASB does, however, encourage plans to implement the new standards sooner.

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GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Q&A GOVERNMENTS IN COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLANS

1 WHAT NEW REQUIREMENTS REGARDING ACCOUNTING AND FINANCIAL REPORTING FOR PENSION BENEFITS WILL GOVERNMENTS THAT PARTICIPATE IN COST-SHARING MULTIPLE-EMPLOYER PENSION PLANS BE IMPLEMENTING?

The Governmental Accounting Standards Board (GASB) approved Statement No. 68, *Accounting and Financial Reporting for Pensions,* in June 2012. Statement 68 significantly changes how governments measure and report the long-term obligations and annual costs associated with the pension benefits they provide. The Statement is available free of charge at www.gasb.org. A separate fact sheet describes the GASB's new pension standards and why they were issued.

2 WHAT IS A COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN?

A *defined benefit* pension specifies the benefits to be provided to the employees after the end of their employment. By contrast, *defined contribution* pensions stipulate only the contributions to an active employee's account each year. A *cost-sharing multiple-employer plan* is one in which the participating government employers pool their assets and their obligations to provide defined benefit pensions—meaning that plan assets can be used to pay the pensions of the retirees of any participating employer. By contrast, the assets of the participating government employers in an *agent multiple-employer plan* are pooled for investment purposes but separate accounts are maintained for each individual employer. Governments participating in cost-sharing multiple-employer defined benefit pension plans are referred to as cost-sharing employers.

3 WHAT IS A NET PENSION LIABILITY AND WHY IS IT IMPORTANT?

To the extent that the cumulative long-term obligation to provide pension benefits of the participating governments in a cost-sharing plan (their total pension liability) is larger than the value of the assets available in the pension plan's trust to pay pension benefits, there is a net pension liability. Each participating cost-sharing government will report its proportionate share of that cumulative net pension liability in their own accrual accounting-based financial statements. This is significant because practically no information about an individual cost-sharing employer's pension obligation has previously been reported in the financial statements. But under Statement 68, the employer's proportionate share of the cumulative net pension liability will appear plainly on the face of the financial statements for the first time, along with a cost-sharing employer's other long-term liabilities.

4 HOW WILL THE AMOUNT OF THE TOTAL PENSION LIABILITY BE DETERMINED?

The new Statement describes the procedures for measuring the total pension liability, which essentially involves three steps:

1. Project total future pension benefit payments for current and former employees
2. Discount the projected benefit payments to their value at the time of the measurement (present value)

3. Attribute the present value of projected benefit payments to the periods when they were or will be earned—past and future.

5 HOW WILL FUTURE BENEFIT PAYMENTS BE PROJECTED?

The projection of future benefit payments is based on the terms of the plan and typically is performed by an actuary engaged by the pension plan. The actuary will use assumptions about relevant factors such as how long employees are expected to work for the participating governments, what their salaries are expected to be, and how long they are expected to collect benefits after retirement. The new Statement requires that all assumptions conform to the standards of the actuarial profession, unless otherwise specified by the GASB.

6 HOW WILL PROJECTED BENEFIT PAYMENTS BE DISCOUNTED?

Discounting projected benefit payments to their present value requires the use of a discount rate. Cost-sharing pension plans will be required to use the long-term expected rate of return on their investments or a single rate based on a combination of the long-term expected rate of return and a municipal bond index rate. At present, cost-sharing plans use only their long-term expected rate of return. To determine which rate to use, both the future benefit payments and the value of assets available in the plan for paying benefits (based primarily on actual contribution experience) will be projected.

At least in the initial years, projected plan assets related to current active and inactive employees can be expected to exceed projected benefit payments related to those employees—as long as this is true, discounting will be based on the long-term expected rate of return. This asset-based rate is appropriate because the earnings on the plan's investments reduce the amount that the cost-sharing employers will need to contribute to the plan.

However, if a point is reached when the projected benefit payments related to current active and inactive employees exceed the projected plan assets related to those employees—called the crossover point—then benefit payments projected to be made from that point forward will be discounted using an interest rate for 20- year tax exempt municipal bonds rated AA or higher (or an equivalent rating). This liability-based rate is appropriate because the plan no longer is expected to have sufficient assets related to those employees to produce investment income that will reduce how much the cost-sharing employers will have to contribute. The pension liability would then resemble a cost-sharing employer's outstanding debt and other typical long-term liabilities.

7 HOW WILL THE PRESENT VALUE OF PROJECTED BENEFIT PAYMENTS BE ATTRIBUTED TO PERIODS OF EMPLOYEE SERVICE?

Attribution to past and future periods of employee service is accomplished using an actuarial cost method. Statement 68 requires that all cost-sharing plans use one type of actuarial cost method—called entry age—and apply it only as a level percentage of payroll. Previously, cost-sharing pension plans had been allowed to select from six methods, each of which could be applied in two ways—as a level dollar amount each year or as a level percentage of payroll in each year. The previous variety of actuarial cost methods allowed seriously diminished the comparability of the information that governments reported about their pension obligations and costs.

The portion of the present value of projected benefit payments that is attributed to past periods of employee service is the total pension liability. The total pension liability minus the value of assets in the pension plan trust equals the cumulative net pension liability that will be divided among the participating cost-sharing employers to report in their own financial statements.

8 HOW WILL THE COST OF PENSIONS (PENSION EXPENSE) BE MEASURED FOR COST-SHARING EMPLOYERS?

A variety of factors contribute to changes in the net pension liability from year to year. For example, the earning of benefits each year increases the net pension liability, while investment earnings and contributions reduce it. Statement 68 requires that most causes of change in the net pension liability be included in pension expense immediately. However, changes resulting from certain causes will be introduced into pension expense over multiple periods. Because the net pension liability is the difference between the total pension liability and plan assets, the causes of change in the net pension liability can be organized into two groups—changes in the total pension liability and changes in plan assets.

The following changes in the total pension liability will be reported as pension expense in the year they occur (in other words, immediately): service cost (the value of new benefits earned each year), interest on the total pension liability, and changes in the benefit terms (improvements or reductions in benefits). Two causes of change in the total pension liability will be introduced into pension expense in increments over a period equal to the average remaining years of service of all members of the plan (both current employees and retirees): (1) the effects of a change in the economic and demographic factors used to project, discount, and attribute benefit payments; and (2) the difference between what those factors were assumed to be and what they actually turned out to be (called experience gains and losses).

In addition to contributions, changes in plan assets primarily result from two sources—the assumptions about investment earnings that are made when measuring the liability, and the difference between those assumptions and actual earnings. The assumed earnings reduce the amount of pension expense reported each year (in other words, immediately). The difference between assumed and actual returns will be introduced into expense in increments over five years (which is intended to roughly represent a market cycle).

The overall effect of the new requirements will be that pension expense will be reported significantly sooner than it has been for most governments. Under the prior standards, the effects of changes in benefit terms, changes in assumptions, experience gains and losses, and the difference between assumed and actual earnings were introduced into expense in increments over selected periods of up to 30 years. The average remaining years of service of plan members is likely to be considerably shorter than 30 years and result in earlier expense recognition.

9 HOW WILL INDIVIDUAL COST-SHARING EMPLOYERS DETERMINE THE PORTION OF THE CUMULATIVE NET PENSION LIABILITY, PENSION EXPENSE, AND PENSION-RELATED DEFERRALS THAT THEY SHOULD RECOGNIZE IN THEIR OWN FINANCIAL STATEMENTS?

The individual cost-sharing employers portion of the cumulative plan-wide pension amounts will be determined by measuring the cost-sharing employer against all of the governments participating in the plan in total. The Statement encourages the proportion to be determined as follows:

Employer's projected long-term contributions to the plan

divided by

Projected long-term contributions to the plan by all employers and other entities on behalf of those employers

However, the calculation may be based on other factors that are relevant to how contributions to the plan are determined. For instance, if a plan assesses a flat amount per active employee covered by the plan, a cost- sharing employer's percentage might be determined by dividing the employer's number of covered employees by the number of covered employees for all participating employers.

However the percentage is determined, the cumulative net pension liability, pension expense, and pension- related deferrals would be multiplied by the percentage to arrive at the "proportionate shares"—the amounts that the cost-sharing employer will report in its own financial statements.

It is possible that a cost-sharing employer's percentage may change from one year to the next. A cost-sharing employer will include in its pension expense the effect the changing percentage has on its proportionate shares of the cumulative net pension liability and pension-related deferrals. As with experience gains and losses, for example, the effect will be introduced into expense in increments over a period equal to the average remaining years of service of all members of the plan (both current employees and retirees).

10 HOW IS THE REPORTING OF THE LIABILITY, EXPENSE, AND DEFERRALS AFFECTED IF ANOTHER ENTITY IS RESPONSIBLE FOR A PORTION OF A COST-SHARING EMPLOYER'S PENSION OBLIGATION?

There are circumstances in which another entity (often governmental) is legally responsible for some or all of a cost-sharing employer's obligation to provide pension benefits. For example, a state government may be responsible for making all of the required contributions to a teacher retirement plan on behalf of local school districts. These circumstances, if they meet certain criteria spelled out in Statement 68, are called "special funding situations." The criteria, as well as the effect on accounting and financial reporting, are described in a separate fact sheet on Special Funding Situations.

11 APART FROM THE LIABILITY, EXPENSE, AND DEFERRALS REPORTED IN THE FINANCIAL STATEMENTS, WHAT OTHER INFORMATION WILL COST-SHARING EMPLOYERS PRESENT?

The notes to the financial statements of cost-sharing employers will be significantly enhanced by Statement 68 and will provide a more comprehensive and easier to understand picture of their pension obligations and costs. Cost-sharing employer notes will include, among other things:

- Descriptions of the pension plan and benefits provided
- Disclosure of significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Disclosure of assumptions related to the discount rate
- Disclosure of what the employer's proportionate share of the net pension liability would be if a discount rate one percentage point higher and a rate one percentage point lower had been used
- The balances of deferred outflows of resources and deferred inflows of resources, presented by source (for example, experience gains and losses, or differences between assumed and actual investment earnings)
- The net amount of deferred inflows and outflows that will be recognized as pension expense and the amount of deferred outflows that will reduce the net pension liability—for each of the next five years and in the aggregate thereafter
- The employer's percentage of the collective net pension liability, how it was determined, and any change in the percentage since the previous measurement.

Cost-sharing employers will also present schedules of required supplementary information following the notes. The first schedule will contain information for each of the most recent 10 years, including the employers proportionate share of the collective net pension liability, the employer's payroll amount for current employees in the plan (employer's covered-employee payroll), a ratio of the employers proportionate share of the collective net pension liability divided by the employer's covered-employee payroll, and the pension plan's net position as a percentage of the total pension liability.

In addition, if a cost-sharing employer's contributions to the plan are based on statutory or contractual requirements, it will present a schedule of required supplementary information covering the 10 most recent years following the notes. The schedules will present the cost-sharing employer's statutorily or contractually required contribution, the employer's actual contributions, the difference between the actual and statutorily or contractually required contributions, and a ratio of the actual contributions divided by employer's covered-employee payroll.

12 WHEN WILL COST-SHARING EMPLOYERS BEGIN REPORTING THE PENSIONS UNDER THE NEW STANDARDS?

Cost-sharing employers are required to put the new standards into effect beginning in fiscal years ending June 30, 2015, and later. The GASB does, however, encourage employers to implement the new standards sooner.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

401 Merritt 7, PO Box 5116
Norwalk, Connecticut 06856-5116
T: 203.847.0700 | F: 203.849.9714

www.gasb.org

Agenda Item 6.

Teachers' Fund for Retirement

SIB Update

March 27, 2014

Dave Hunter, Executive Director / CIO

Darren Schulz, Deputy Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

Executive Summary

- **Investment Performance** – TFFR generated a net return of 10.5% for the six months ended December 31, 2013 and an 8.8% net return over the last 30 years. For the 1- and 3-year periods ended December 31, 2013, TFFR generated a gross return of 17% and 10%, respectively, which ranked in the top 43% of all public pension plans in the Callan Public Fund Sponsor Database.

- **Risk Update** - During the "Last 5 Years", **Pension Risk** (as measured by standard deviation) **has declined by 69%** from 11.9% to 3.9%. A lower standard deviation is preferred over a higher standard deviation when comparing risk profiles. As a result, the Pension Funds peer risk rating improved to the **lowest 10%** (93rd percentile) in the "Last Year."

- **Client Level Reporting** – RIO staff is working with Callan to develop enhanced performance reporting for SIB's five largest clients including the TFFR. These enhancements will be implemented over the next 90 days.

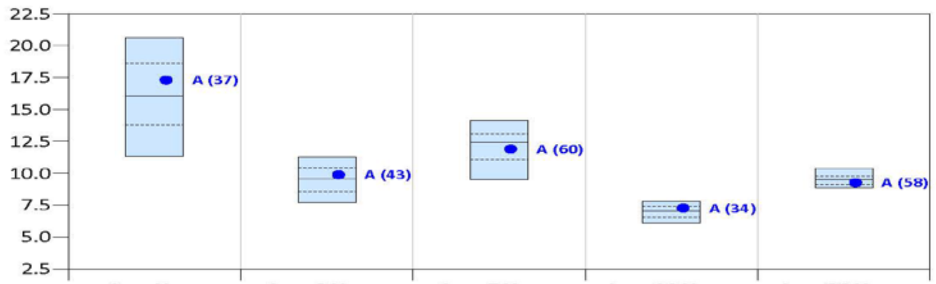
- **Watch List** – The SIB placed PIMCO and WAMCO to the Watch List on February 28, 2014. PIMCO was added due to senior management turnover, while WAMCO was added due to a recent regulatory settlement. The SIB maintained Loomis, Sayles on the Watch List due to organizational changes in prior years and disappointing performance in the past year.

- **Emerging Market Equity Update** – The Staff is working with Callan to conduct an Emerging Market Equity Search over the next three months.

- **Custody Review** – The SIB approved a RIO Staff recommendation to perform a third party review of Northern Trust's custody services in 2014.

TFFR generated 2nd Quartile returns for 1-, 3- and 10-year periods ended 12/31/13 including a 17.3% return in the last year.

Returns
for Periods Ended December 31, 2013
Group: CAI Public Fund Sponsor Database

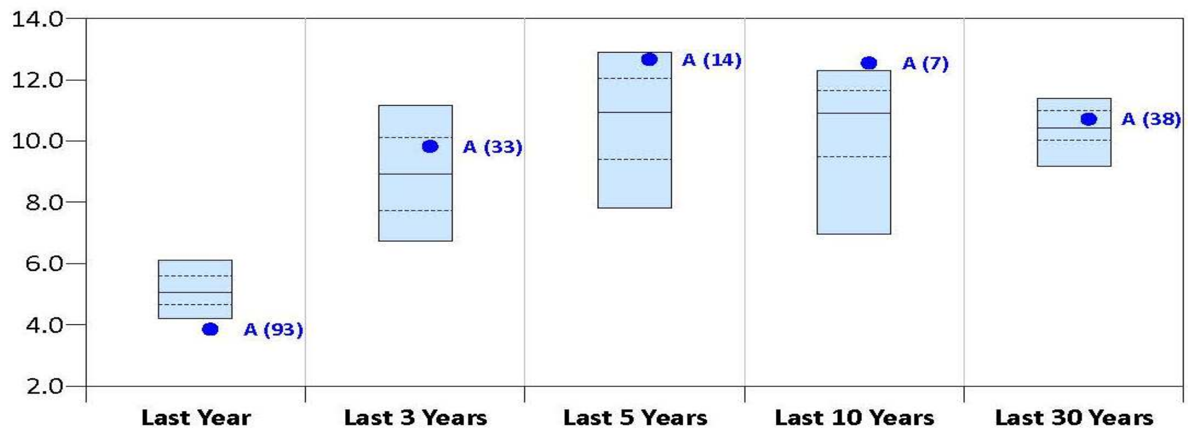


	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 30 Years
10th Percentile	20.6	11.3	14.1	7.8	10.4
25th Percentile	18.6	10.4	13.1	7.4	9.8
Median	16.1	9.6	12.5	7.1	9.5
75th Percentile	13.8	8.6	11.0	6.6	9.1
90th Percentile	11.3	7.7	9.5	6.1	8.9
Member Count	236	223	215	183	26
Total Fund TFFR Gross ● A	**17.3**	**9.9**	**11.9**	**7.3**	**9.3**

The above information is based on the Callan Associates Public Fund Sponsor Database noting the number of observations in the Last 30 Years only includes 26 members.

TFFR’s Investment Risk, as measured by Standard Deviation, has declined by 69% during the last 5 years (to 3.9% from 12.7%).

Standard Deviation
for Periods Ended December 31, 2013
Group: CAI Public Fund Sponsor Database



	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 30 Years
10th Percentile	6.1	11.2	12.9	12.3	11.4
25th Percentile	5.6	10.1	12.0	11.6	11.0
Median	5.1	8.9	11.0	10.9	10.4
75th Percentile	4.7	7.7	9.4	9.5	10.0
90th Percentile	4.2	6.7	7.8	7.0	9.2
Member Count	236	223	215	183	26
Total Fund TFFR Gross ● A	**3.9**	**9.8**	**12.7**	**12.5**	**10.7**

The above information is based on the Callan Associates Public Fund Sponsor Database noting the number of observations in the Last 30 Years only includes 26 members.

TFFR – Calendar Year 2013
Contribution to Relative Return

	1 Year	3 Year	5 Year
Total Fund Excess Return	**1.70%**	**0.92%**	**-0.55%**
Asset Allocation	**0.28%**	**-0.01%**	**-0.68%**
Manager Selection	**1.42%**	**0.93%**	**0.13%**
Global Equity	0.36%	0.00%	0.06%
Domestic Equity	0.44%	0.11%	0.13%
International Equity	0.30%	0.25%	0.48%
Private Equity	0.00%	0.00%	0.00%
Domestic Fixed Income	0.22%	0.23%	-0.09%
International Fixed Income	-0.02%	0.11%	0.27%
Real Estate	0.27%	0.25%	-0.38%
Timber	-0.36%	-0.21%	-0.20%
Infrastructure	0.19%	0.13%	0.12%
Cash Equivalents	0.00%	0.00%	0.00%

Manager selection has been a meaningful contributor to positive excess return during the last 5 years, while asset allocation has asset allocation has migrated to the positive during this time frame.

Estimated Fiscal YTD Returns to March 20, 2014

Estimated YTD Through 3/20/2014
(Actual returns are net of fees; estimates are gross indices)

			TFFR	
Market Value		**31-Jan**	**1,934,680,548**	
Total Fund Actual through		31-Jan		**8.71%**
Total Fund Policy through		31-Jan		8.30%
		28-Feb		
MSCI World		5.01%		16.0%
Russell 1000		4.75%		16.6%
Russell 2000		4.71%		4.8%
EAFE		5.56%		11.8%
Emerging Mkts		3.31%		2.8%
BC Agg		0.53%		12.0%
BC High Yield		2.02%		5.0%
BC Global Agg ex US		0.43%		5.0%
Real Estate		0.84%		20.0%
Private Equity		0.00%		5.0%
TIPS		1.65%		0.0%
ML 1-3Y Treasury		0.09%		0.0%
T-Bill		0.00%		1.0%
Est. MTD through	**2/28/2014**			**2.92%**
		20-Mar		
MSCI World		-1.11%		16.0%
Russell 1000		0.67%		16.6%
Russell 2000		1.44%		4.8%
EAFE		-3.50%		11.8%
Emerging Mkts		-2.58%		2.8%
BC Agg		-0.58%		12.0%
BC High Yield		-0.19%		5.0%
BC Global Agg ex US		-0.37%		5.0%
Real Estate		0.56%		20.0%
Private Equity		0.00%		5.0%
TIPS		-1.00%		0.0%
ML 1-3Y Treasury		-0.19%		0.0%
T-Bill		0.00%		1.0%
Est. MTD through	**3/20/2014**			**-0.47%**
Estimated FYTD Return	**3/20/2014**			**11.36%**
Estimated FYTD Policy	3/20/2014			10.93%
Comparison to 8% return assumption pro-rated FYTD				***5.70%***

NOTE: Estimated fiscal year to date net investment returns through March 20, 2014 (of 11.36%) exceed the "Policy Benchmark" by about 0.43% (or 43 basis points) and far exceed the 8.0% stated return objective.

Relationship Reviews, Fee Savings & Upcoming Projects

- **Relationship Reviews** - Since December, RIO has met with managers which are responsible for investing **over $6 billion in SIB client assets** including JPMorgan ($1.2 billion), Babson ($800 million), Western ($680 million), LA Capital ($670 million), LSV ($650 million), Northern Trust ($580 million), PIMCO ($410 million) and Loomis ($200 million).
- **Fee Savings** - During the last four months, RIO staff have identified **$2.2 million** in annual cost savings including a recent **$280,000/year** fee reduction in custody services.
- **Private Equity Preview** - During the next six months, RIO intends to conduct a review of our Private Equity, Infrastructure and Timber strategies. These reviews should serve to confirm our investment approach to less liquid strategies, rationalize smaller investments with limited upside, while easing administrative reporting demands and potentially generating additional cost savings in future years.

SIB Managers Currently Under Review

Manager	Pool	Review Inception	Reason	Status
Loomis Sayles	Pension	Oct-12	Full Discretion co-PM Kathleen Gaffney departure	Ongoing review of two additions to Full Discretion team and Dan Fuss succession plan.
PIMCO	Pension, Insurance	Feb-14	Personnel changes – Unconstrained Bond PM Chris Dialynas sabbatical, co-CIO Mohamed El-Erian departure	Recommend a formal review with findings and recommendation to be reported at a subsequent meeting.
Western Asset	Pension, Insurance	Feb-14	Concerns regarding internal controls stemming from trading practices cited in recent SEC and DOL settlements	Recommend a formal review with findings and recommendation to be reported at a subsequent meeting.

Contact Information

- **Phone:**

  Dave 701-328-9889 or Darren 701-328-9885

  1-800-952-2970 (outside Bismarck/Mandan)

- **Mailing Address**

  ND Retirement and Investment Office

  1930 Burnt Boat Drive, P.O. Box 7100

  Bismarck, ND 58507-7100

- **E-mail Address:**

  rio@nd.gov, djhunter@nd.gov or djschulz@nd.gov

- **Website Address:**

  www.nd.gov/rio

ND STATE INVESTMENT BOARD MEETING

Friday, March 28, 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 (February 28, 2014)

III. INVESTMENTS

A. Asset and Performance Overview
1. Assets Under Management (enclosed) Mr. Hunter (5 min)
2. Major Client Level Interim Returns (enclosed) Mr. Hunter (10 min)

B. Investment Performance Review
1. Peer Performance - Mr. Hunter (enclosed) 10 min
2. Attribution Analysis - Mr. Schulz (enclosed) 10 min

C. Fee Review - Mr. Hunter (enclosed) 10 min

D. Service Review
1. Emerging Market Search Update - Mr. Hunter (5 min)
2. Strategy Risk & Return Preview - Mr. Hunter (10 min)
3. FargoDome Preview - Mr. Schulz (5 min)

E. Custody Review Recommendation - Mr. Hunter (enclosed) (20 min) **(Board Approval)**

F. Watch List Recommendations - Mr. Schulz (30 min) **(Board Approval)**

IV. GOVERNANCE

A. Administration
1. Staff Update - Mr. Hunter (enclosed) (5 min)
2. Audit Committee Update - Mr. Gessner (enclosed) (5 min)

B. Board Education
1. Litigation Monitoring - **TBD** (enclosed) (15 min)
2. Callan College - Mr. Hunter (enclosed) (5 min)

V. OTHER

Next Meetings:
SIB meeting - April 25, 2014, 8:30 a.m. - State Capitol, Peace Garden Room
SIB Audit Committee meeting - May 23, 2014, 1:00 pm - State Capitol, Peace Garden Room

VI. ADJOURNMENT

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
FEBRUARY 28, 2014, BOARD MEETING

BOARD MEMBERS PRESENT:	Drew Wrigley, Lt. Governor, Chair Mike Sandal, Vice Chair Clarence Corneil, TFFR (Parliamentarian, telecon) Lance Gaebe, Land Commissioner Mike Gessner, TFFR Board Adam Hamm, Insurance Commissioner Rob Lech, TFFR Board Howard Sage, PERS Board Kelly Schmidt, State Treasurer Cindy Ternes, Workforce Safety & Insurance designee Kim Wassim, PERS Board
STAFF PRESENT:	Connie Flanagan, Fiscal & Investment Op Mgr Bonnie Heit, Assistant to the SIB David Hunter, ED/CIO Fay Kopp, Deputy ED/CRO Cody Schmidt, Compliance Officer Darren Schulz, Deputy CIO Susan Walcker, Investment Accountant
OTHERS PRESENT:	Jeff Engleson, Deputy Land Commissioner Levi Erdmann, former SIB & PERS trustee Paul Erlendson, Callan Associates Jan Murtha, Attorney General's Office Bryan Reinhardt, PERS

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, February 28, 2014, 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 COMMISSIONER GAEBE AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE FEBRUARY 28, 2014, MEETING.

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

MINUTES:

The minutes were considered from the January 24, 2014, meeting.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY COMMISSIONER HAMM AND CARRIED ON A VOICE VOTE TO ACCEPT THE JANUARY 24, 2014, MINUTES AS WRITTEN.

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

NAYS: NONE
MOTION CARRIED

INVESTMENTS:

Callan – Mr. Erlendson provided commentary on the status of the markets and performance of the Pension and Insurance Trusts for the quarter ending December 31, 2013.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SAGE AND CARRIED ON A VOICE VOTE TO ACCEPT THE REPORTS GIVEN BY CALLAN.

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

The SIB recessed at 10:00 a.m. and reconvened at 10:15 a.m.

Peer Performance – Mr. Hunter stated for the 1 and 3 year periods ended December 31, 2013, the Pension Funds generated gross returns of 17.1% and 9.9% respectively which rank in the 2nd quartile of Callan's public fund sponsor database. For the 5 years ending December 31, 2013, the Funds generated a 11.7% return which ranked in the 3rd quartile.

The Insurance Funds generated gross returns of 5.2% and 8.1% for the 1 and 5 year periods ended December 31, 2013, respectively. These returns were approximately 2% higher than the policy benchmark and benefitted from strong manager selection.

Fee & Custody Review – Mr. Hunter informed the SIB staff would like to conduct an in-depth custodial review of The Northern Trust to confirm service standards and fee levels in conjunction with an outside consultant. Mr. Hunter requested authorization to move forth on the review.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT STAFF RECOMMENDATION TO CONDUCT A CUSTODIAL REVIEW OF THE NORTHERN TRUST.

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

Mr. Hunter also reviewed fee activity. Staff's restructuring of the Pension Global Equity mandate in December 2013 will generate cost savings. Staff has also been conducting relationship reviews to confirm the reasonableness of investment management fees and pursuing fee reductions wherever possible which has generated positive results thus far with a number of managers.

A targeted fee study will also be completed. Staff will be looking at independent third parties to complete the study and will bring back a recommendation to the SIB.

Risk Review & Attribution Analysis – Mr. Schulz reviewed the Pension Trust's risk as measured by standard deviation. During the last 5 years, the Pension Trust's risk has declined by 67% from 11.8% to 3.9%. As a result, the Pension Trust peer risk rating improved to the lowest, 10% or 93rd percentile, in the last year. A low volatility environment for equities contributed to the reduction as well as the restructuring of the fixed income portfolio. Staff will continue to monitor the risk/return profiles of the investment portfolios.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. WASSIM AND CARRIED ON A VOICE VOTE TO ACCEPT THE PERFORMANCE, FEE, AND SERVICE REVIEW REPORTS.

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

Watch List – Along with Callan's recommendations, staff also concurs to place PIMCO and Western Asset Management (WAMCO) on the Watch List due to recent management changes and securities litigation, respectively. Staff will be conducting on-site due diligence meetings with the firms and will provide updates to the SIB.

IT WAS MOVED BY MS. TERNES AND SECONDED BY COMMISSIONER GAEBE AND CARRIED BY A VOICE VOTE TO ACCEPT STAFF RECOMMENDATION AND PLACE PIMCO AND WAMCO ON THE WATCH LIST.

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

Emerging Market Equity – Mr. Hunter stated as part of the restructuring of the global public equity portfolio within the Pension Trust staff is currently working with Callan to conduct an emerging market equity search. Staff will be making a recommendation to the SIB at a future meeting.

GOVERNANCE:

Technical Legislation Recommendation – Ms. Flanagan reviewed a bill draft to update sections 21-10-02 and 21-10-06 of the NDCC.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT STAFF'S DRAFT OF LEGISLATION TO AMEND AND REENACT SECTIONS 21-10-02 AND 21-10-06 OF THE NDCC RELATING TO MODIFICATIONS TO INVESTMENT POLICIES FOR AND FUNDS UNDER MANAGEMENT OF THE SIB.

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

Public Employees Retirement System (PERS) & Legislative Audit & Fiscal Review Committee(LAFRC) – Mr. Hunter and Mr. Schulz met with the PERS Investment Subcommittee to clarify asset class definitions which will be shared with the SIB once completed.

Mr. Hunter stated at the last LAFRC on January 21, 2014, staff fielded questions from the LAFRC regarding the Teachers' Fund for Retirement (TFFR) funded ratio trends. Ms. Kopp has been working with TFFR's actuary, Segal, to address the LAFRC questions.

Staffing Update – Mr. Hunter provided an update on office staff. Staff has been addressing the following vacancies; Audit Supervisor, Information Technology Coordinator, and Investment Analyst.

Mountain States Investor Agenda – Mr. Hunter stated he and Mr. Schulz will be attending the Mountain States Institutional Investor Forum in Denver, CO on March 6, 2014. Mr. Hunter reviewed the agenda and also stated Mr. Erlendson will also be participating as a panelist.

Legal Update – Ms. Murtha reviewed the Halliburton appeal with the SIB. North Dakota recently joined other states in filing an amicus brief in the Halliburton appeal which is currently pending in The U.S. Supreme Court. The Supreme Court accepted the Halliburton case which has the potential to change securities litigation. The Supreme Court will review a precedent that has served as the foundation for shareholder suits for the past 25 years. The Halliburton appeal is requesting The Supreme Court overturn a 1988 ruling that permitted class-action lawsuits based on investors' belief in market prices that were skewed by misrepresentations or omissions. Ms. Murtha will keep the SIB briefed on the status of the Halliburton appeal.

Litigation Monitoring – Mr. Hunter stated staff will work with Ms. Murtha to draft a securities litigation policy for the SIB's consideration. The Northern Trust currently oversees all domestic class actions for the SIB with limited monitoring of foreign actions. Staff will also work with Ms. Murtha to identify a firm(s) to bring before the SIB to present an educational segment on securities litigation monitoring.

Meeting Dates 2014-15 – Staff reviewed a draft of regularly scheduled meetings of the SIB for the 2014-15 fiscal year and recommended nine meetings be scheduled per year instead of 11 which is what has normally been scheduled.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. SAGE AND CARRIED ON A ROLL CALL VOTE TO SCHEDULE 11 SIB MEETINGS FOR THE 2014-15 FISCAL YEAR.

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

OTHER:

The next SIB meeting is scheduled for March 28, 2014, at 8:30 am at the Peace Garden Room, State Capitol, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for February 28, 2014, 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 11:45 a.m.

____
Lt. Governor Wrigley, Chair
State Investment Board

____
Bonnie Heit
Assistant to the Board

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JANUARY 24, 2014, BOARD MEETING

BOARD MEMBERS PRESENT:	Drew Wrigley, Lt. Governor, Chair Mike Sandal, Vice Chair Clarence Corneil, TFFR (Parliamentarian, Telecon) Lance Gaebe, Land Commissioner Mike Gessner, TFFR Board Adam Hamm, Insurance Commissioner Rob Lech, TFFR Board Howard Sage, PERS Board Kelly Schmidt, State Treasurer Cindy Ternes, Workforce Safety & Insurance Tom Trenbeath, PERS Board
STAFF PRESENT:	Connie Flanagan, Fiscal & Investment Op Mgr Bonnie Heit, Assistant to the SIB David Hunter, ED/CIO Fay Kopp, Deputy ED/CRO Cody Schmidt, Compliance Officer Darren Schulz, Deputy CIO
OTHERS PRESENT:	Ron Leingang, former PERS & SIB trustee Jan Murtha, Attorney General's Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, January 24, 2014, at the State Capitol, Peace Garden Room, 600 E Boulevard, Bismarck, ND.

A quorum was present for the purpose of conducting business.

The SIB welcomed Mr. David Hunter, ED/CIO, Mr. Cody Schmidt, Compliance Officer, and also welcomed back Ms. Connie Flanagan, Fiscal & Investment Operations Manager.

AGENDA:

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE JANUARY 24, 2014, MEETING.

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

MINUTES:

The minutes were considered from the November 22, 2013, meeting.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE NOVEMBER 22, 2013, MINUTES AS WRITTEN.

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

NAYS: NONE
MOTION CARRIED

INVESTMENTS:

Public Pension Peer Performance Summary – Mr. Hunter provided an update on the SIB's Pension Fund's investment returns. For the 12 months ended September 30, 2013, the Pension Fund's investment returns were in the first quartile of all public pension plans and also ranked in the top third during the last three years. The Pension Funds were also in the 37^{th} percentile of the Callan Associates Public Fund Sponsor Database for the 10 year period ended September 30, 2013.

Investment Manager Rankings – Mr. Hunter reviewed the SIB investment managers by assets under management and fees paid in FY 2013 for the Pension Fund and Insurance Funds. Mr. Hunter and Mr. Schulz will be ranking the SIB investment managers by assets and fees and conducting relationship reviews to confirm the reasonableness of investment management fees and pursuing fee reductions wherever possible. In addition, they will also confirm overall adherence to investment guidelines and risk/return expectations.

Global Equity Transition – Mr. Schulz reported the first phase of restructuring the Pension Global Equity asset class has been completed. The transition took place in December 2013 and will generate an estimated $750,000 in annual fee savings going forward.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE FOLLOWING INVESTMENT REPORTS; PUBLIC PENSION PEER PERFORMANCE SUMMARY, INVESTMENT MANAGER RANKINGS, AND THE GLOBAL EQUITY TRANSITION UPDATE.

AYES: MR. CORNEIL, 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

Westridge/WG Trading – Ms. Murtha updated the SIB on the Westridge/WG Trading litigation. The cost basis of this investment was $75 million. To date, two distributions have been made to the SIB by the court appointed receiver and a proposed third distribution is expected which will result in a total return of approximately $71 million or 94.4% of the original cost basis of the investment to the SIB.

Ms. Murtha requested the SIB enter into Executive Session to discuss the tolling agreement with Deloitte.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. TRENBEATH AND CARRIED ON A ROLL CALL VOTE TO ENTER INTO EXECUTIVE SESSION PER NDCC §44-04-19.1(5) AND NDCC §44-04-19.2 FOR ATTORNEY CONSULTATION REGARDING THE WESTRIDGE/WG TRADING LITIGATION.

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

The SIB entered into Executive Session at 9:05 a.m. and exited at 9:26 a.m. The SIB, RIO staff, and Ms. Murtha were in attendance.

The SIB provided guidance to Ms. Murtha regarding the Westridge/WG Trading litigation strategy but did not find it necessary to take any formal action at this time after consulting with Ms. Murtha. Ms. Murtha will continue to provide updates as warranted.

GOVERNANCE:

Audit Committee Liaison Report – Mr. Gessner updated the SIB on activities of the SIB Audit Committee from their November 22, 2013, meeting. The Committee received the audit results of the Retirement and Investment Office's (RIO) financial statements for the fiscal year ended June 30, 2013, by Mr. Jason Ostroski, CliftonLarsonAllen. The firm issued an unmodified, clean opinion.

Mr. Ostroski also reviewed the new accounting statements the Governmental Accounting Standards Board (GASB) recently approved. GASB 67, Financial Reporting for Pension plans, 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, Accounting and Financial Reporting for Pensions, 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.

Mr. Gessner also stated with the retirement of the Audit Supervisor, current plans are to complete 24 school district audits and four not in compliance reviews. As of November 15, 2013, eight audits were completed, three audits are in progress, and one not in compliance review is in progress. Mr. Gessner also reported the TFFR File Maintenance Audit was completed and changes made to TFFR member account data by RIO employees was tested. No exceptions were noted.

Ms. Kopp provided an update on the status of RIO's Audit Supervisor position. The position was posted on December 31, 2013 and closes January 24, 2014. To date, the State Human Resource Management Services (HRMS) has received one application. Ms. Kopp will be reviewing next steps with HRMS, Mr. Hunter, and Ms. Becky Dorwart, Chair of the SIB Audit Committee.

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

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

Legislative Update – Mr. Hunter updated the SIB on the Legislative Audit & Fiscal Review Committee (LAFRC) meeting he, Mr. Schulz, Ms. Kopp, and Ms. Walcker attended on January 21, 2014. The Committee heard the results of RIO's financial statements for the fiscal years ended June 30, 2013 and June 30, 2012, by Mr. Thomas Rey, CliftonLarsonAllen. Mr. Hunter also stated staff fielded questions from the LAFRC on the SIB's investment management fees and the Teachers' Fund for Retirement (TFFR) funded ratio trends. Staff will be working on putting together the appropriate information to address the LAFRC questions at their next scheduled meeting.

Organizational Chart Update – Mr. Hunter reviewed a revised organizational chart for RIO and also provided an update on staffing. Mr. Cody Schmidt assumed the role of Compliance Officer effective December 9, 2013, and Ms. Connie Flanagan was reinstated as Fiscal & Investment Operations Manager, effective January 22, 2014. Positions left to be filled are the Audit Supervisor and Investment Analyst.

Interim Compensation Update – Mr. Hunter stated interim compensation adjustments were given to staff affected by the vacancies in the Fiscal Division and the adjustments will be discontinued now that the Compliance Officer and Fiscal and Investment Operations Manager positions have been filled.

QUARTERLY MONITORING:

The following monitoring reports were considered for the quarter ending December 31, 2013; Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program, Retirement Program, and the Retirement and Investment Office (RIO) June 30, 2013, Financial Audit Report.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE MONITORING REPORTS FOR THE QUARTER ENDING DECEMBER 31, 2013, AND RIO'S FINANCIAL AUDIT REPORT FOR THE PERIOD ENDING JUNE 30, 2013.

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

OTHER:

The next SIB meeting is scheduled for February 28, 2014, at 8:30 am at the Peace Garden Room, State Capitol, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for February 28, 2014, 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 9:50 a.m.

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Lt. Governor Wrigley, Chair
State Investment Board

____
Bonnie Heit
Assistant to the Board

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF JANUARY 31, 2014

	January-14					December-13					September-13					Current Fiscal YTD		Prior FY13		3 Years Ended 6/30/2013		5 Years Ended 6/30/2013	
		Allocation		Month			Allocation		Quarter			Allocation		Quarter									
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Gross (7)	Net	Gross (7)	Net	Gross	Net	Gross	Net
TOTAL FUND	1,934,680,548	100.0%	100.0%	-1.61%	-1.64%	1,970,377,031	100.0%	100.0%	5.41%	5.33%	1,880,504,455	100.0%	100.0%	5.02%	4.93%	8.92%	8.71%	13.97%	13.63%	12.18%	11.81%	3.42%	2.92%
POLICY TARGET BENCHMARK				-1.35%	-1.35%				4.56%	4.56%				4.99%	4.99%	8.30%	8.30%	11.95%	11.95%	10.80%	10.80%	4.60%	4.60%
ATTRIBUTION ANALYSIS																							
Asset Allocation				-0.12%	-0.12%				0.19%	0.19%				0.06%	0.06%	0.13%	0.13%	0.06%	0.06%	0.03%	0.03%		
Manager Selection				-0.14%	-0.17%				0.66%	0.57%				-0.03%	-0.12%	0.49%	0.29%	1.97%	1.62%	1.36%	0.98%		
TOTAL RELATIVE RETURN				-0.26%	-0.28%				0.85%	0.77%				0.02%	-0.06%	0.62%	0.42%	2.03%	1.68%	1.38%	1.01%		
GLOBAL EQUITIES	1,148,616,802	59.4%	57.0%	-3.31%	-3.34%	1,185,288,282	60.2%	57.0%	8.04%	7.95%	1,126,263,450	59.9%	57.0%	7.73%	7.63%	12.54%	12.30%	19.30%	18.93%				
Benchmark				-3.02%	-3.02%				7.36%	7.36%				7.50%	7.50%	11.93%	11.93%	18.07%	18.07%				
Epoch (1)	126,692,723	6.5%	7.0%	-4.30%	-4.35%	132,382,731	6.7%	4.5%	9.71%	9.54%	96,886,043	5.2%	4.5%	8.33%	8.16%	13.74%	13.33%	20.85%	20.10%	11.82%	11.41%	6.38%	5.23%
Calamos	-	0.0%	0.0%	N/A	N/A	-	0.0%	1.5%	N/A	N/A	25,492,602	1.4%	1.5%	6.29%	6.11%	N/A	N/A	8.37%	7.65%	N/A	N/A	N/A	N/A
LSV	195,557,197	10.1%	9.0%	-4.17%	-4.23%	204,069,139	10.4%	10.0%	9.38%	9.21%	198,599,316	10.6%	10.0%	8.71%	8.54%	13.95%	13.52%	N/A	N/A	N/A	N/A	N/A	N/A
Total Global Equities	322,255,063	16.7%	16.0%	-4.22%	-4.27%	336,475,546	17.1%	16.0%	9.11%	8.98%	320,977,962	17.1%	16.0%	8.40%	8.23%	13.28%	12.90%	17.06%	16.32%				
MSCI World (2)				-3.70%	-3.70%				8.00%	8.00%				8.18%	8.18%	12.50%	12.50%	18.58%	18.58%				
Domestic - broad	450,070,358	23.3%	21.5%	-2.96%	-2.98%	460,289,634	23.4%	21.5%	10.70%	10.64%	425,249,128	22.6%	21.5%	6.96%	6.89%	14.90%	14.74%	24.02%	23.70%				
Benchmark				-2.03%	-2.03%				9.89%	9.89%				6.96%	6.96%	15.15%	15.15%	21.93%	21.93%				
Large Cap Domestic																							
LA Capital	128,305,086	6.6%	6.6%	-2.53%	-2.54%	130,277,514	6.6%	4.9%	11.42%	11.38%	128,702,297	6.8%	5.0%	6.66%	6.61%	15.84%	15.72%	18.86%	18.65%	19.03%	18.82%	7.30%	7.08%
Russell 1000 Growth				-2.85%	-2.85%				10.44%	10.44%				8.11%	8.11%	15.99%	15.99%	17.07%	17.07%	18.68%	18.68%	7.47%	7.47%
LA Capital	95,699,432	4.9%	3.3%	-3.73%	-3.74%	98,381,690	5.0%	2.8%	11.33%	11.29%	87,843,476	4.7%	2.9%	5.41%	5.37%	12.97%	12.87%	21.63%	21.44%	19.08%	18.81%	7.66%	7.39%
Russell 1000				-3.19%	-3.19%				10.23%	10.23%				6.02%	6.02%	13.13%	13.13%	21.24%	21.24%	18.63%	18.63%	7.12%	7.12%
Northern Trust	48,159,195	2.5%	3.3%	-3.37%	-3.39%	49,324,219	2.5%	2.5%	11.96%	11.89%	43,778,727	2.3%	2.3%	4.97%	4.90%	13.57%	13.39%	23.67%	23.35%	19.75%	19.49%	8.15%	7.95%
Clifton	67,221,689	3.5%	3.3%	-2.99%	-2.99%	68,582,158	3.5%	6.4%	10.09%	10.09%	61,908,128	3.3%	6.4%	4.98%	4.98%	12.10%	12.10%	20.44%	20.43%	N/A	N/A	N/A	N/A
S&P 500				-3.46%	-3.46%				10.51%	10.51%				5.24%	5.24%	12.29%	12.29%	20.60%	20.60%	18.45%	18.45%	7.01%	7.01%
Total Large Cap Domestic	339,385,401	17.5%	16.6%	-3.08%	-3.09%	346,565,581	17.6%	16.6%	11.17%	11.13%	322,232,629	17.1%	16.6%	5.76%	5.72%	13.95%	13.85%	23.13%	22.92%	18.57%	18.23%	3.73%	3.29%
Russell 1000 (2)				-3.19%	-3.19%				10.23%	10.23%				6.02%	6.02%	13.13%	13.13%	21.24%	21.24%	18.62%	18.62%	7.10%	7.10%
Small Cap Domestic																							
SEI	60,309	0.0%	0.0%	22.96%	22.96%	94,615	0.0%	0.0%	0.17%	0.17%	93,382	0.0%	0.0%	-5.01%	-5.01%	16.99%	16.99%	386.46%	386.46%	46.90%	46.90%	19.57%	19.06%
Callan	61,819,674	3.2%	2.4%	-2.72%	-2.77%	63,589,347	3.2%	2.4%	9.73%	9.58%	57,393,212	3.1%	2.4%	11.32%	11.17%	18.82%	18.44%	27.71%	27.01%	20.26%	19.54%	9.71%	9.16%
Clifton	48,804,973	2.5%	2.4%	-2.47%	-2.51%	50,040,091	2.5%	2.4%	8.66%	8.53%	45,529,904	2.4%	2.4%	10.37%	10.24%	16.97%	16.65%	25.30%	24.72%	20.17%	19.68%	N/A	N/A
Total Small Cap Domestic	110,684,957	5.7%	4.8%	-2.59%	-2.63%	113,724,053	5.8%	4.8%	9.25%	9.11%	103,016,498	5.5%	4.8%	10.88%	10.74%	18.00%	17.65%	26.86%	26.22%	20.05%	19.46%	10.27%	9.59%
Russell 2000				1.97%	1.97%				8.72%	8.72%				10.21%	10.21%	22.18%	22.18%	24.21%	24.21%	18.67%	18.67%	8.77%	8.77%
International - broad	282,531,696	14.6%	14.5%	-3.64%	-3.66%	293,444,196	14.9%	14.5%	5.03%	4.90%	287,580,516	15.3%	14.5%	11.28%	11.12%	12.63%	12.30%	17.71%	16.98%				
Benchmark				-4.50%	-4.50%				4.97%	4.97%				10.45%	10.45%	10.73%	10.73%	15.51%	15.51%				
Developed International																							
State Street	-	0.0%	0.0%	N/A	N/A	-	0.0%	1.3%	2.00%	1.98%	25,439,001	1.4%	1.3%	12.16%	12.13%	N/A	N/A	23.17%	22.63%	10.23%	9.54%	-1.10%	-1.80%
MSCI EAFE (3)				-4.03%	-4.03%				5.71%	5.71%				11.56%	11.56%	13.19%	13.19%	18.62%	18.62%	10.04%	10.04%	-0.63%	-0.63%
Capital Group	47,402,561	2.5%	3.5%	-3.82%	-3.85%	49,283,561	2.5%	7.9%	5.56%	5.45%	34,822,099	1.9%	2.4%	11.78%	11.67%	13.49%	13.23%	21.31%	20.83%	10.29%	9.77%	0.66%	0.12%
MSCI EAFE (4)				-4.03%	-4.03%				5.71%	5.71%				11.56%	11.56%	13.19%	13.19%	18.62%	18.62%	8.10%	8.10%	-0.01%	-0.01%
Clifton	358	0.0%	0.0%	N/A	N/A	52,881	0.0%	0.0%	N/A	N/A	103,233,465	5.5%	5.5%	11.99%	11.79%	N/A	N/A	17.25%	16.39%	9.03%	8.71%	N/A	N/A
MSCI EAFE														11.56%	11.56%			18.62%	18.62%	10.04%	10.04%		

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF JANUARY 31, 2014

	January-14					December-13					September-13					Current Fiscal YTD		Prior FY13		3 Years Ended 6/30/2013		5 Years Ended 6/30/2013	
		Allocation		Month			Allocation		Quarter			Allocation		Quarter									
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Gross (7)	Net	Gross (7)	Net	Gross	Net	Gross	Net
NTGI	109,177,787	0.0%	5.9%	-4.04%	-4.04%	113,805,911	0.0%	0.0%	N/A	N/A	0	0.0%	0.0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MSCI World Ex US				*-4.04%*	*-4.03%*																		
DFA	35,135,981	1.8%	1.2%	-1.38%	-1.42%	35,626,170	1.8%	1.3%	7.99%	7.85%	32,946,952	1.8%	1.3%	16.61%	16.45%	24.20%	23.81%	24.89%	24.22%	12.34%	11.63%	2.91%	2.21%
Wellington	40,101,869	2.1%	1.2%	-0.72%	-0.78%	40,392,769	2.1%	1.3%	5.85%	5.67%	38,123,658	2.0%	1.3%	15.54%	15.35%	21.41%	20.93%	26.16%	25.31%	17.16%	16.27%	5.82%	4.90%
S&P/Citigroup BMI EPAC < $2BN				*-0.54%*	*-0.54%*				*3.42%*	*3.42%*				*14.42%*	*14.42%*	*17.69%*	*17.69%*	*18.05%*	*18.05%*	*9.78%*	*9.78%*	*1.26%*	*1.26%*
Total Developed International	**231,882,375**	**12.0%**	**11.8%**	**-3.05%**	**-3.08%**	**239,273,607**	**12.1%**	**11.8%**	**5.87%**	**5.74%**	**234,565,174**	**12.5%**	**11.8%**	**13.17%**	**13.01%**	**16.15%**	**15.82%**	**20.94%**	**20.22%**	**10.69%**	**10.15%**	**2.10%**	**1.54%**
MSCI EAFE (4)				*-4.03%*	*-4.03%*				*5.71%*	*5.71%*				*11.56%*	*11.56%*	*13.19%*	*13.19%*	*18.62%*	*18.62%*	*8.10%*	*8.10%*	*-0.01%*	*-0.01%*
Emerging Markets																							
JP Morgan	9,182,623	0.5%	0.7%	-7.82%	-7.89%	9,961,789	0.5%	0.5%	1.17%	0.97%	9,762,661	0.5%	0.5%	2.34%	2.14%	-4.56%	-5.01%	5.11%	4.28%	4.79%	4.01%	1.36%	0.57%
PanAgora	-	0.0%	0.0%	N/A	N/A	1	0.0%	0.5%	N/A	N/A	6,715,167	0.4%	0.5%	2.61%	2.44%	N/A	N/A	6.28%	5.58%	4.47%	3.72%	-0.81%	-1.55%
UBS	-	0.0%	0.0%	N/A	N/A	21	0.0%	0.8%	N/A	N/A	9,155,375	0.5%	0.8%	2.78%	2.54%	N/A	N/A	-0.62%	-1.55%	3.19%	2.34%	-0.59%	-1.46%
NTGI	28,219,188	1.5%	1.4%	-6.58%	-6.60%	30,224,575	1.5%	0.5%	2.00%	1.96%	13,890,769	0.7%	0.5%	5.80%	5.76%	0.81%	0.72%	N/A	N/A	N/A	N/A	N/A	N/A
DFA	13,247,510	0.7%	0.7%	-4.28%	-4.33%	13,839,346	0.7%	0.5%	1.68%	1.51%	13,491,370	0.7%	0.5%	3.45%	3.29%	0.69%	0.31%	9.18%	8.47%	6.59%	5.80%	6.52%	5.78%
Total Emerging Markets	**50,649,321**	**2.6%**	**2.8%**	**-6.22%**	**-6.25%**	**54,170,589**	**2.7%**	**2.8%**	**1.32%**	**1.19%**	**53,015,342**	**2.8%**	**2.8%**	**3.62%**	**3.47%**	**-1.53%**	**-1.84%**	**4.55%**	**3.82%**	**6.69%**	**5.97%**	**2.00%**	**1.17%**
MSCI Emerging Markets				*-6.49%*	*-6.49%*				*1.83%*	*1.83%*				*5.77%*	*5.77%*	*0.71%*	*0.71%*	*2.87%*	*2.87%*	*3.48%*	*3.48%*	*-0.25%*	*-0.25%*
Private Equity																							
Coral Momentum Fund (Formerly Fund VI)	1,024,823	0.1%		-11.48%	-11.48%	1,157,744	0.1%		-15.40%	-15.40%	1,357,487	0.1%		0.00%	0.00%	-25.11%	-25.11%	14.19%	14.19%	-4.54%	-4.54%	-15.94%	-16.01%
Brinson 1998 Partnership Fund	55,483	0.0%		0.00%	0.00%	55,483	0.0%		1.75%	1.75%	54,089	0.0%		-1.10%	-1.10%	0.63%	0.63%	16.27%	16.27%	4.87%	4.87%	-5.39%	-5.63%
Brinson 1999 Partnership Fund	401,648	0.0%		0.00%	0.00%	401,648	0.0%		9.66%	9.66%	532,987	0.0%		0.41%	0.41%	10.11%	10.11%	9.46%	9.46%	10.71%	10.71%	0.36%	0.11%
Brinson 2000 Partnership Fund	1,129,989	0.1%		0.00%	0.00%	1,389,224	0.1%		-0.81%	-0.81%	1,389,275	0.1%		-2.20%	-2.20%	-2.99%	-2.99%	6.03%	6.03%	12.52%	12.52%	2.75%	2.50%
Brinson 2001 Partnership Fund	1,406,288	0.1%		0.00%	0.00%	1,406,288	0.1%		7.79%	7.79%	1,514,440	0.1%		-1.46%	-1.46%	6.22%	6.22%	12.43%	12.43%	14.42%	14.42%	4.80%	4.55%
Brinson 2002 Partnership Fund	739,616	0.0%		0.00%	0.00%	877,112	0.0%		3.73%	3.73%	838,741	0.0%		0.10%	0.10%	3.83%	3.83%	6.52%	6.52%	17.45%	17.45%	4.71%	4.45%
Brinson 2003 Partnership Fund	368,428	0.0%		0.00%	0.00%	368,428	0.0%		7.00%	7.00%	379,217	0.0%		7.69%	7.69%	15.23%	15.23%	6.11%	6.11%	8.51%	8.51%	2.19%	1.94%
Total Brinson Partnership Funds	4,101,452	0.2%		0.00%	0.00%	4,498,183	0.2%		4.40%	4.40%	4,708,749	0.3%		-0.53%	-0.53%	3.84%	3.84%	8.66%	8.66%	13.26%	13.26%	3.18%	2.93%
Brinson 1999 Non-US Partnership Fund	256,669	0.0%		0.00%	0.00%	256,669	0.0%		4.99%	4.99%	242,490	0.0%		0.20%	0.20%	5.20%	5.20%	27.87%	27.87%	27.63%	27.63%	10.48%	10.21%
Brinson 2000 Non-US Partnership Fund	425,872	0.0%		0.00%	0.00%	491,915	0.0%		-4.98%	-4.98%	513,512	0.0%		0.08%	0.08%	-4.90%	-4.90%	-1.13%	-1.13%	9.56%	9.56%	-2.18%	-2.43%
Brinson 2001 Non-US Partnership Fund	255,760	0.0%		0.00%	0.00%	255,760	0.0%		15.43%	15.43%	310,204	0.0%		-0.27%	-0.27%	15.12%	15.12%	9.41%	9.41%	4.02%	4.02%	-7.57%	-7.82%
Brinson 2002 Non-US Partnership Fund	771,816	0.0%		0.00%	0.00%	912,406	0.0%		3.79%	3.79%	872,033	0.0%		-2.68%	-2.68%	1.01%	1.01%	8.55%	8.55%	15.73%	15.73%	-2.33%	-2.59%
Brinson 2003 Non-US Partnership Fund	727,864	0.0%		0.00%	0.00%	872,146	0.0%		-0.10%	-0.10%	865,986	0.0%		4.37%	4.37%	4.27%	4.27%	32.82%	32.82%	20.45%	20.45%	6.27%	6.00%
Brinson 2004 Non-US Partnership Fund	461,791	0.0%		0.00%	0.00%	531,056	0.0%		2.58%	2.58%	570,792	0.0%		-1.83%	-1.83%	0.70%	0.70%	8.52%	8.52%	9.90%	9.90%	-2.30%	-2.55%
Total Brinson Non-US Partnership Fund	2,899,772	0.1%		0.00%	0.00%	3,319,952	0.2%		2.41%	2.41%	3,375,018	0.2%		-0.05%	-0.05%	2.35%	2.35%	13.16%	13.16%	14.49%	14.49%	0.02%	-0.24%
Adams Street 2008 Non-US Partnership Fd	2,493,898	0.1%		0.00%	0.00%	2,493,898	0.1%		5.99%	5.99%	2,251,863	0.1%		-0.23%	-0.23%	5.75%	5.75%	10.58%	10.58%	9.37%	9.37%	2.05%	-2.17%
Brinson BVCF IV	2,452,560	0.1%		0.00%	0.00%	2,452,560	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	7,698,814	0.4%		0.00%	0.00%	7,698,814	0.4%		2.72%	2.72%	7,510,344	0.4%		0.00%	0.00%	2.72%	2.72%	11.74%	11.74%	13.70%	13.70%	3.10%	2.69%
Adams Street 2010 Direct Fund	536,052	0.0%		0.00%	0.00%	522,194	0.0%		9.95%	9.95%	462,359	0.0%		0.00%	0.00%	9.95%	9.95%	2.36%	2.36%	4.96%	4.96%	N/A	N/A
Adams Street 2010 Non-US Emerging Mkts	218,416	0.0%		0.00%	0.00%	218,416	0.0%		-0.45%	-0.45%	166,716	0.0%		-1.13%	-1.13%	-1.58%	-1.58%	-5.04%	-5.04%	N/A	N/A	N/A	N/A
Adams Street 2010 Non-US Developed Mkts	766,723	0.0%		0.00%	0.00%	766,723	0.0%		4.68%	4.68%	674,927	0.0%		-0.70%	-0.70%	3.94%	3.94%	11.47%	11.47%	0.81%	0.81%	N/A	N/A
Adams Street 2010 Partnership Fund	1,500,743	0.1%		0.00%	0.00%	1,500,743	0.1%		4.20%	4.20%	1,321,949	0.1%		-0.14%	-0.14%	4.06%	4.06%	10.31%	10.31%	15.54%	15.54%	N/A	N/A
Total Adams Street 2010 Funds	3,021,934	0.2%		0.00%	0.00%	3,008,076	0.2%		5.00%	5.00%	2,625,951	0.1%		-0.32%	-0.32%	4.67%	4.67%	8.27%	8.27%	9.88%	9.88%	N/A	N/A
Matlin Patterson Global Opportunities	5,537	0.0%		0.00%	0.00%	5,537	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	688,496	0.0%		0.00%	0.00%	688,496	0.0%		0.75%	0.75%	677,885	0.0%		-0.03%	-0.03%	0.72%	0.72%	-12.14%	-12.14%	-53.08%	-53.08%	-45.68%	-45.80%
Matlin Patterson Global Opportunities III	11,882,590	0.6%		0.00%	0.00%	11,882,590	0.6%		-3.18%	-3.18%	12,173,907	0.6%		0.00%	0.00%	-3.18%	-3.18%	25.08%	25.08%	41.76%	41.76%	16.69%	15.28%
InvestAmerica (Lewis and Clark Fund)	2,827,770	0.1%		0.00%	0.00%	2,827,770	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	4,691,737	0.2%		0.00%	0.00%	4,691,737	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%		0.00%	0.00%	-	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%		0.00%	0.00%	-	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)	5,695,520	0.3%		-0.58%	-0.58%	5,698,710	0.3%		6.86%	6.86%	5,247,230	0.3%		-1.48%	-1.48%	4.67%	4.67%	-10.93%	-10.93%	-1.72%	-2.07%	-5.61%	-6.74%
Corsair III - ND Investors LLC (2)	5,363,387	0.3%		-0.47%	-0.47%	5,363,387	0.3%		-0.21%	-0.21%	5,320,176	0.3%		0.22%	0.22%	-0.47%	-0.47%	8.19%	8.19%	4.27%	4.18%	2.33%	2.09%
Corsair IV	5,305,074	0.3%		-1.02%	-1.02%	5,309,616	0.3%		4.97%	4.97%	4,840,660	0.3%		-1.85%	-1.85%	1.97%	1.97%	8.75%	8.75%	-5.01%	-5.19%	N/A	N/A
Capital International (CIPEF V)	9,249,422	0.5%		-0.33%	-0.33%	9,207,885	0.5%		4.40%	4.40%	8,735,695	0.5%		-0.22%	-0.22%	3.83%	3.83%	-10.03%	-10.03%	6.63%	6.63%	3.60%	2.40%
Capital International (CIPEF VI)	5,604,593	0.3%		-1.12%	-1.12%	5,604,593	0.3%		-4.53%	-4.53%	4,645,555	0.2%		-1.88%	-1.88%	-7.37%	-7.37%	-22.38%	-22.38%	N/A	N/A	N/A	N/A
EIG (formerly TCW)	10,562,306	0.5%		-3.80%	-3.80%	10,979,358	0.6%		-0.42%	-0.42%	10,679,766	0.6%		-3.94%	-3.94%	-7.98%	-7.98%	0.37%	0.37%	6.67%	6.67%	11.10%	10.10%
Quantum Resources	4,134,295	0.2%		0.00%	0.00%	4,134,295	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	4,055,704	0.2%		0.00%	0.00%	4,055,704	0.2%		14.76%	14.76%	4,275,224	0.2%		0.04%	0.04%	14.80%	14.80%	18.79%	18.79%	23.23%	23.23%	9.73%	7.86%
Total Private Equity (8)	**93,759,685**	**4.8%**	**5.0%**	**-0.80%**	**-0.80%**	**95,078,906**	**4.8%**	**5.0%**	**1.62%**	**1.62%**	**92,455,844**	**4.9%**	**5.0%**	**-0.92%**	**-0.92%**	**-0.11%**	**-0.11%**	**6.69%**	**6.69%**	**8.85%**	**8.85%**	**0.59%**	**0.27%**

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF JANUARY 31, 2014

	January-14					December-13					September-13					Current Fiscal YTD		Prior FY13		3 Years Ended 6/30/2013		5 Years Ended 6/30/2013	
		Allocation		Month			Allocation		Quarter			Allocation		Quarter									
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Gross (7)	Net	Gross (7)	Net	Gross	Net	Gross	Net
GLOBAL FIXED INCOME	***424,607,558***	***21.9%***	***22.0%***	***1.19%***	***1.18%***	***420,088,034***	***21.3%***	***22.0%***	***0.61%***	***0.55%***	***405,691,264***	***21.6%***	***22.0%***	***1.13%***	***1.07%***	***2.96%***	***2.83%***	***5.94%***	***5.71%***				
Benchmark				***1.15%***	***1.15%***				***0.57%***	***0.57%***				***1.82%***	***1.82%***	***3.57%***	***3.57%***	***0.93%***	***0.93%***				
Domestic Fixed Income	***330,909,621***	***17.1%***	***17.0%***	***1.48%***	***1.46%***	***326,589,608***	***16.6%***	***17.0%***	***0.93%***	***0.88%***	***318,447,181***	***16.9%***	***17.0%***	***0.89%***	***0.85%***	***3.33%***	***3.22%***	***7.56%***	***7.37%***				
Benchmark				***1.25%***	***1.25%***				***0.95%***	***0.95%***				***1.07%***	***1.07%***	***3.30%***	***3.30%***	***2.22%***	***2.22%***				
Investment Grade Fixed Income																							
PIMCO (DiSCO II) (8)	32,555,657	1.7%	1.7%	1.17%	1.17%	32,177,892	1.6%	1.9%	3.83%	3.83%	43,530,899	2.3%	1.9%	2.01%	2.01%	7.16%	7.16%	33.07%	33.07%	N/A	N/A	N/A	N/A
BC Aggregate				***1.48%***	***1.48%***				***-0.14%***	***-0.14%***				***0.57%***	***0.57%***	***1.92%***	***1.92%***	***-0.69%***	***-0.69%***				
State Street	26,012,382	1.3%	1.2%	5.52%	5.52%	24,654,405	1.3%	1.2%	-3.09%	-3.09%	20,793,887	1.1%	1.2%	-2.24%	-2.24%	-0.03%	-0.03%	N/A	N/A	N/A	N/A	N/A	N/A
BC Long Treasuries				***5.53%***	***5.53%***				***-3.08%***	***-3.08%***				***-2.23%***	***-2.23%***	***0.00%***	***0.00%***	***-8.36%***	***-8.36%***				
PIMCO (Unconstrained) (9)	36,079,878	1.9%	1.7%	0.56%	0.56%	35,880,435	1.8%	1.4%	-0.70%	-0.70%	26,325,858	1.4%	1.4%	-0.28%	-0.28%	-0.42%	-0.42%	2.20%	2.20%	N/A	N/A	N/A	N/A
3m LIBOR				***0.02%***	***0.02%***				***0.06%***	***0.06%***				***0.07%***	***0.07%***	***0.15%***	***0.15%***	***0.34%***	***0.34%***				
Declaration (Total Return) (9)	26,737,002	1.4%	1.4%	1.06%	1.06%	26,455,883	1.3%	1.4%	0.94%	0.94%	26,513,570	1.4%	1.4%	0.97%	0.97%	3.00%	3.00%	7.83%	7.83%	N/A	N/A	N/A	N/A
3m LIBOR				***0.02%***	***0.02%***				***0.06%***	***0.06%***				***0.07%***	***0.07%***	***0.15%***	***0.15%***	***0.34%***	***0.34%***				
Western Asset	44,872,940	2.3%	2.4%	1.72%	1.71%	44,114,368	2.2%	2.4%	-0.52%	-0.56%	44,880,070	2.4%	2.4%	0.92%	0.88%	2.12%	2.02%	-1.31%	-1.48%	N/A	N/A	N/A	N/A
PIMCO (MBS)	66,387,605	3.4%	3.6%	1.53%	1.52%	65,414,738	3.3%	3.6%	-0.44%	-0.48%	66,464,638	3.5%	3.6%	0.72%	0.68%	1.82%	1.72%	-0.45%	-0.62%	N/A	N/A	N/A	N/A
BC Mortgage Backed Securities Index				***1.56%***	***1.56%***				***-0.42%***	***-0.42%***				***1.61%***	***1.61%***	***2.76%***	***2.76%***	***-1.10%***	***-1.10%***				
Total Investment Grade Fixed Income	**232,645,464**	**12.0%**	**12.0%**	**1.74%**	**1.73%**	**228,697,720**	**11.6%**	**12.0%**	**0.00%**	**-0.02%**	**228,508,920**	**12.2%**	**12.0%**	**0.64%**	**0.62%**	**2.39%**	**2.34%**	**5.13%**	**5.04%**	**5.86%**	**5.65%**	**4.28%**	**3.78%**
BC Aggregate				***1.48%***	***1.48%***				***-0.14%***	***-0.14%***				***0.57%***	***0.57%***	***1.92%***	***1.92%***	***-0.69%***	***-0.69%***	***3.51%***	***3.51%***	***5.19%***	***5.19%***
Below Investment Grade Fixed Income																							
Loomis Sayles	90,219,986	4.7%	4.6%	0.67%	0.63%	89,620,751	4.5%	4.6%	3.30%	3.19%	83,622,316	4.4%	4.7%	1.79%	1.67%	5.85%	5.58%	12.75%	12.25%	11.41%	10.91%	10.28%	9.77%
PIMCO (BRAVO II) (9)	2,478,700	0.1%	0.1%	13.84%	13.84%	2,183,560	0.1%	0.1%	-1.67%	-1.67%	0	0.0%	0.0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Goldman Sachs 2006 Fund (8)	1,008,701	0.1%	0.1%	-0.84%	-0.84%	1,421,141	0.1%	0.1%	3.63%	3.63%	1,680,291	0.1%	0.1%	-0.31%	-0.31%	2.44%	2.44%	18.49%	18.49%	6.96%	6.96%	3.82%	1.93%
Goldman Sachs Fund V (8)	4,556,769	0.2%	0.2%	-1.07%	-1.07%	4,666,436	0.2%	0.2%	2.79%	2.79%	4,635,655	0.2%	0.2%	-0.75%	-0.75%	0.92%	0.92%	17.11%	17.11%	15.96%	15.96%	13.95%	13.42%
Total Below Investment Grade Fixed Incom	**98,264,157**	**5.1%**	**5.0%**	**0.86%**	**0.82%**	**97,891,888**	**5.0%**	**5.0%**	**3.19%**	**3.08%**	**89,938,261**	**4.8%**	**5.0%**	**1.61%**	**1.50%**	**5.74%**	**5.49%**	**14.10%**	**13.64%**	**11.75%**	**11.35%**	**8.27%**	**7.62%**
BC High Yield 2% Issuer Constrained Index				***0.70%***	***0.70%***				***3.57%***	***3.57%***				***2.28%***	***2.28%***	***6.68%***	***6.68%***	***9.50%***	***9.50%***	***10.69%***	***10.69%***	***11.00%***	***11.00%***
International Fixed Income	**93,697,937**	**4.8%**	**5.0%**	**0.21%**	**0.18%**	**93,498,425**	**4.7%**	**5.0%**	**-0.49%**	**-0.58%**	**87,244,082**	**4.6%**	**5.0%**	**1.98%**	**1.89%**	**1.70%**	**1.49%**	**0.83%**	**0.48%**				
Benchmark				***0.80%***	***0.80%***				***-0.72%***	***-0.72%***				***4.38%***	***4.38%***	***4.46%***	***4.46%***	***-3.40%***	***-3.40%***				
Developed Investment Grade Int'l FI																							
UBS Global (Brinson)	46,797,174	2.4%	2.5%	0.84%	0.82%	46,405,505	2.4%	2.5%	-0.83%	-0.90%	41,975,644	2.2%	2.5%	3.77%	3.70%	3.79%	3.60%	-3.45%	-3.74%	3.64%	3.34%	2.89%	2.59%
BC Global Aggregate ex-US (6)				***0.80%***	***0.80%***				***-0.72%***	***-0.72%***				***4.38%***	***4.38%***	***4.46%***	***4.46%***	***-3.40%***	***-3.40%***	***3.46%***	***3.46%***	***3.11%***	***3.11%***
Brandywine	46,900,763	2.4%	2.5%	-0.41%	-0.44%	47,092,921	2.4%	2.5%	-0.18%	-0.27%	45,268,439	2.4%	2.5%	0.37%	0.27%	-0.22%	-0.44%	5.00%	4.59%	9.95%	9.53%	8.53%	8.11%
BC Global Aggregate (ex-US)				***1.06%***	***1.06%***				***-0.44%***	***-0.44%***				***2.80%***	***2.80%***	***3.42%***	***3.42%***	***-2.18%***	***-2.18%***	***3.55%***	***3.55%***	***3.43%***	***3.43%***
Total Developed Investment Grade Int'l FI	**93,697,937**	**4.8%**	**5.0%**	**0.21%**	**0.18%**	**93,498,425**	**4.7%**	**5.0%**	**-0.49%**	**-0.58%**	**87,244,082**	**4.6%**	**5.0%**	**1.98%**	**1.89%**	**1.70%**	**1.49%**	**0.83%**	**0.48%**	**6.89%**	**6.53%**	**5.97%**	**5.61%**
BC Global Aggregate ex-US				***0.80%***	***0.80%***				***-0.72%***	***-0.72%***				***4.38%***	***4.38%***	***4.46%***	***4.46%***	***-3.40%***	***-3.40%***	***3.46%***	***3.46%***	***3.11%***	***3.11%***

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF JANUARY 31, 2014

	January-14					December-13					September-13					Current Fiscal YTD		Prior FY13		3 Years Ended 6/30/2013		5 Years Ended 6/30/2013	
		Allocation		Month			Allocation		Quarter			Allocation		Quarter									
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Gross (7)	Net	Gross (7)	Net	Gross	Net	Gross	Net
GLOBAL REAL ASSETS	***354,200,176***	***18.3%***	***20.0%***	***0.73%***	***0.70%***	***351,638,430***	***17.8%***	***20.0%***	***2.73%***	***2.64%***	***337,245,747***	***17.9%***	***20.0%***	***1.53%***	***1.44%***	***5.06%***	***4.83%***	***8.29%***	***7.89%***				
Benchmark				***0.59%***	***0.59%***				***1.34%***	***1.34%***				***1.58%***	***1.58%***	***3.55%***	***3.55%***	***8.09%***	***8.09%***				
Global Real Estate																							
INVESCO - Core	69,270,300			0.00%	-0.04%	69,270,300			3.37%	3.25%	66,811,686			2.25%	2.13%	5.69%	5.40%	13.36%	12.84%	15.85%	15.38%	0.04%	-0.46%
INVESCO - Fund II (8)	11,092,623			2.03%	2.03%	10,871,826			5.18%	5.18%	10,295,447			0.00%	0.00%	7.32%	7.32%	23.44%	23.44%	35.58%	35.58%	-15.67%	-16.63%
INVESCO - Fund III (9)	11,200,619			4.34%	4.34%	10,734,662			6.39%	6.39%	10,050,416			0.00%	0.00%	11.00%	11.00%	16.79%	16.79%	N/A	N/A	N/A	N/A
INVESCO - Asia Real Estate Fund (8)	12,612,589			0.00%	0.00%	12,612,589			8.22%	8.22%	10,792,339			-1.09%	-1.09%	7.05%	7.05%	-5.61%	-5.61%	-4.32%	-4.32%	N/A	N/A
J.P. Morgan Strategic & Special Funds	64,147,554			1.09%	1.02%	63,603,448			3.80%	3.58%	61,177,491			4.50%	4.28%	9.65%	9.11%	14.62%	13.66%	16.20%	15.23%	0.20%	-0.82%
J.P. Morgan Alternative Property Fund	2,458,498			10.46%	10.45%	2,225,798			-10.37%	-10.39%	2,646,116			11.43%	11.40%	10.32%	10.25%	15.24%	15.13%	15.71%	15.35%	-6.30%	-7.55%
J.P. Morgan Greater Europe Fund (8)	9,822,355			0.05%	0.05%	10,036,495			20.36%	20.36%	4,809,670			-0.04%	-0.04%	20.38%	20.38%	-48.64%	-48.64%	-106.48%	-106.48%	N/A	N/A
J.P. Morgan Greater China Property Fund (8)	8,543,114			-2.10%	-2.10%	8,543,114			7.04%	7.04%	9,669,059			4.40%	4.40%	9.41%	9.41%	-4.51%	-4.51%	2.30%	2.30%	1.53%	0.33%
Total Global Real Estate	**189,147,652**	**9.8%**	**10.0%**	**0.75%**	**0.71%**	**187,898,232**	**9.5%**	**10.0%**	**4.67%**	**4.54%**	**176,252,225**	**9.4%**	**10.0%**	**2.56%**	**2.44%**	**8.15%**	**7.86%**	**11.04%**	**10.55%**	**15.90%**	**15.36%**	**-1.43%**	**-2.21%**
NCREIF TOTAL INDEX				***0.84%***	***0.84%***				***2.53%***	***2.53%***				***2.59%***	***2.59%***	***6.06%***	***6.06%***	***10.72%***	***10.72%***	***13.14%***	***13.14%***	***2.79%***	***2.79%***
Timber																							
TIR - Teredo (7)	34,818,516	1.8%		4.03%	4.03%	33,469,579	1.7%		-3.41%	-3.41%	34,401,079	1.8%		0.00%	0.00%	0.48%	0.48%	5.64%	5.64%	3.09%	3.09%	5.33%	5.20%
TIR - Springbank	55,749,206	2.9%		1.09%	1.09%	55,159,265	2.8%		-0.36%	-0.36%	54,968,505	2.9%		0.02%	0.02%	0.75%	0.75%	-2.45%	-2.45%	-3.02%	-3.02%	-4.88%	-4.92%
Total Timber	**90,567,722**	**4.7%**	**5.0%**	**2.20%**	**2.20%**	**88,628,844**	**4.5%**	**5.0%**	**-1.53%**	**-1.53%**	**89,369,584**	**4.8%**	**5.0%**	**0.01%**	**0.01%**	**0.65%**	**0.65%**	**0.58%**	**0.58%**				
NCREIF Timberland Index(8)				***0.31%***	***0.31%***				***0.93%***	***0.93%***				***0.93%***	***0.93%***	***2.18%***	***2.18%***	***9.35%***	***9.35%***	***3.71%***	***3.71%***	***0.47%***	***2.51%***
Infrastructure																							
JP Morgan (Asian)	13,657,925	0.7%		0.08%	0.08%	13,657,925	0.7%		-4.34%	-4.34%	13,624,013	0.7%		0.11%	0.11%	*-4.15%*	-4.15%	*23.99%*	23.99%	6.83%	6.83%	N/A	N/A
JP Morgan (IIF)	46,047,690	2.4%		-1.73%	-1.81%	46,859,584	2.4%		5.56%	5.31%	44,031,299	2.3%		1.87%	1.63%	5.67%	5.08%	10.64%	9.57%	7.42%	6.12%	-0.12%	-1.56%
Credit Suisse	14,779,186	0.8%		0.00%	0.00%	14,593,844	0.7%		3.70%	3.70%	13,968,627	0.7%		-1.32%	-1.32%	2.33%	2.33%	9.43%	9.43%	N/A	N/A	N/A	N/A
Total Infrastructure (8)	**74,484,801**	**3.8%**	**5.0%**	**-1.06%**	**-1.11%**	**75,111,354**	**3.8%**	**5.0%**	**3.32%**	**3.16%**	**71,623,938**	**3.8%**	**5.0%**	**0.91%**	**0.76%**	**3.15%**	**2.79%**	**12.33%**	**11.60%**				
CPI				***0.38%***	***0.38%***				***-0.59%***	***-0.59%***				***0.23%***	***0.23%***	***0.02%***	***0.02%***	***1.75%***	***1.75%***				
Cash Equivalents																							
Northern Trust STIF	7,256,012			0.00%	0.00%	13,362,285			0.01%	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	**7,256,012**	**0.4%**	**1.0%**	**0.00%**	**0.00%**	**13,362,285**	**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				***0.01%***	***0.01%***				***0.02%***	***0.02%***				***0.02%***	***0.02%***	***0.04%***	***0.04%***	***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

March 27, 2014

During the past four 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 and IT Coordinator positions. We have also revised 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.

- Gary Vetter announced his retirement as RIO's Information Technology Supervisor. Mr. Vetter's last day will be March 31, 2014.

- Rich Nagel, RIO's current IT Coordinator, will be promoted to RIO's Information Technology Supervisor effective April 1, 2014.

- RIO's IT Coordinator position, which will be vacant as a result of Rich's promotion, was posted on February 20, and advertised on February 23 and March 2. We interviewed five candidates for this position on March 20.

- RIO's Audit Supervisor position was posted on December 31, 2013. To expand the applicant pool, the position was reposted and re-advertised in March 2014. Application closing date was March 18.

- The Investment Analyst position will be posted once an organizational review of investment and fiscal division duties is completed.

- Annual performance reviews will commence in April and discussed with staff during May prior to being finalized in June.

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
FEBRUARY 28, 2014, MEETING

COMMITTEE MEMBERS PRESENT: Rebecca Dorwart, Chair
Lonny Mertz, Vice Chair
Mike Gessner, TFFR Board/Liaison to the SIB
Mike Sandal, PERS Board
Cindy Ternes, Workforce Safety & Insurance

STAFF PRESENT: Bonnie Heit, Assistant to the Audit Committee
David Hunter, Executive Director/CIO
Fay Kopp, Deputy Executive Director/CRO
Dottie Thorsen, Internal Auditor

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, February 28, 2014, at the State Capitol, 600 E Blvd, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

The Audit Committee considered the February 28, 2014, agenda.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE FEBRUARY 28, 2014, MEETING.

AYES: MR. SANDAL, MS. TERNES, MR. MERTZ, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

MINUTES:

The Audit Committee considered the minutes from the November 22, 2013, meeting.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE NOVEMBER 22, 2013, MINUTES AS WRITTEN.

AYES: MR. GESSNER, MR. SANDAL, MS. TERNES, MR. MERTZ, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

AUDIT ACTIVITIES REPORT:

Ms. Thorsen reviewed internal audit activities for the October 1, 2013 - December 31, 2013 period.

As of December 31, 2013, 10 audits were completed and two audits were in progress, and information for six districts was on file. As of February 28 2014, 14 audits have been completed, two are in progress, two not in compliance reviews have been completed, and notifications to five more districts were sent out.

Ms. Thorsen also indicated the TFFR File Maintenance Audit was completed. No exceptions were noted.

Staff also reviewed budgeted hours for the period ending December 31, 2013.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. MERTZ AND CARRIED ON A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE PERIOD OF OCTOBER 1, 2013 - DECEMBER 31, 2013.

AYES: MS. TERNES, MR. MERTZ, MR. SANDAL, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

GASB IMPLEMENTATION:

Ms. Kopp informed the Audit Committee she has been meeting with the Public Employees Retirement System (PERS) and the State Auditor’s Office representatives to review options and timeframes for implementing the new pension reporting standards, GASB Statements No. 67 and No. 68. The entities are working through the process in a joint effort, where appropriate, in order to reduce costs and provide consistency for state and local governments, school districts, and other Teachers’ Fund for Retirement (TFFR) and PERS participating employers. Ms. Kopp also reviewed a draft timeline to implement the new standards.

AUDIT SUPERVISOR POSITION:

Ms. Kopp updated the Audit Committee on recruitment efforts for the Audit Supervisor vacancy. Ms. Kopp has been working with Ms. Dorwart, Mr. Hunter, and Mr. Lynn Hart, State Human Resource Management Services (HRMS) on filling the vacancy. The vacancy was first posted on December 31, 2013, and in order to expand the applicant pool, the position has been re-posted twice with the current closing date scheduled for March 18, 2014. Ms. Dorwart will also look into having the local chapter of the Institute of Internal Auditors (IIA) distribute the vacancy posting to its members. Ms. Kopp will continue to keep the Audit Committee up to date on the status of the position.

STAFFING UPDATE:

Mr. Hunter provided an update on office staff. Mr. Cody Schmidt assumed the role of Compliance Officer effective December 9, 2013, and Ms. Connie Flanagan was reinstated as Fiscal & Investment Operations Manager, effective January 22, 2014. Mr. Gary Vetter, Information Technology Supervisor, will retire March 31, 2014, and Mr. Rich Nagel, will be promoted into the position effective April 1, 2014. Positions left to be filled are the Audit Supervisor, Information Technology Coordinator, and Investment Analyst and staff is addressing those vacancies.

OTHER:

The next Audit Committee meeting is scheduled for May 23, 2014, at 1:00 p.m. at the State Capitol, Peace Garden Room.

ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 1:35 p.m.

Respectfully Submitted:

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Ms. Rebecca Dorwart, Chair
SIB Audit Committee

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Bonnie Heit
Assistant to the Audit Committee

DRAFT
TFFR AND SIB MEETING SCHEDULE

Remaining 2013-14 Meetings

April 2014
24 TFFR – 1:00 pm
25 SIB - 8:30 am

May 2014
-- TFFR – No meeting
23 SIB – 8:30 am

June 2014
-- TFFR – No meeting
27 SIB – 8:30 am

2014-15 Meetings

July 2014
24 TFFR - 1:00 pm
25 SIB - 8:30 am

August 2014
-- TFFR - No meeting
22 SIB - 8:30 am

September 2014
25 TFFR - 1:00 pm
26 SIB - 8:30 am

October 2014
23 TFFR - 1:00 pm
24 SIB - 8:30 am

November 2014*
-- TFFR - No meeting
21 SIB - 8:30 am

December 2014
-- No meetings

January 2015
22 TFFR - 1:00 pm
23 SIB - 8:30 am

February 2015
26 TFFR - 1:00 pm
27 SIB - 8:30 am

March 2015
26 TFFR - 1:00 pm
27 SIB - 8:30 am

April 2015
23 TFFR - 1:00 pm
24 SIB - 8:30 am

May 2015
-- TFFR - No meeting
22 SIB - 8:30 am

June 2015
-- TFFR – No meeting
26 SIB - 8:30 am

Notes:
1) SIB meetings scheduled for 4th Friday of each month, except for November* which is 3rd Friday due to Thanksgiving.
2) TFFR meetings scheduled for day preceding SIB meetings.
3) During 2015 legislative session, TFFR board scheduled to meet monthly.

DRAFT 03/20/14

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **March 20, 2014**

SUBJ: **Legal Updates**

Jan Murtha, Assistant Attorney General, will update the Board on two legal issues of interest to the TFFR Board:

1) Halliburton amicus brief – open session.

2) Member QDRO litigation – closed session due to attorney consultation and discussion of confidential member information.

PENSION FUNDING:

A Guide for Elected Officials

Report from the Pension Funding Task Force 2013

Issued by:

National Governors Association (NGA)
National Conference of State Legislatures (NCSL)
The Council of State Governments (CSG)
National Association of Counties (NACo)
National League of Cities (NLC)
The U.S. Conference of Mayors (USCM)
International City/County Management Association (ICMA)
National Council on Teacher Retirement (NCTR)
National Association of State Auditors, Comptrollers and Treasurers (NASACT)
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)

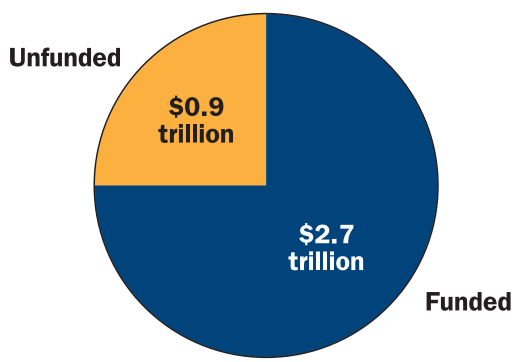
PENSION FUNDING:

A Guide for Elected Officials

Introduction

Defined benefit pension plans have a long history in public sector compensation. These plans are typically funded through a combination of employer and employee contributions and earnings from investments. Public pension plans hold more than $3 trillion in assets in trust on behalf of more than 15 million working and 8 million retired state and local government employees and their surviving family members. The pie chart below illustrates the 2011 funded status of 109 state-administered plans and 17 locally administered plans. These plans represent 85 percent of total state and local government pension assets and members.

Figure 1. *Funding of Aggregate Pension Liability, 2011*



Source: BC-CRR Estimates based on *Public Plans Database* (PPD).

The value of securities held by public and private retirement plans declined significantly following the economic crisis of 2008–2009, causing an increase in unfunded pension liabilities. The range of those unfunded public pension liabilities varies widely among governments. These same governments also have enacted major changes in their retirement plans over the past decade. Today, some public pension plans are well funded, while others have seen their funded status decline.

Now another change is on the horizon: new pension accounting standards issued by the Governmental Accounting Standards Board (GASB) in 2012. GASB Statement No. 67, *Financial Reporting for Pension Plans,* takes effect for pension plan fiscal years beginning after June 15, 2013 (fiscal years ending on or after June 30, 2014). GASB Statement No. 68, *Accounting and Reporting for Pensions,* applies to employers (and contributing nonemployers) in fiscal years beginning after June 15, 2014 (fiscal years ending on or after June 30, 2015).

These new accounting standards will change the way public pensions and their sponsoring governments report their pension liabilities. In particular, the new standards no longer provide guidance on how to calculate the actuarially determined annual required contribution (ARC), which many governments have used not only for accounting, but also to budget their pension plan contribution each year. In fact, these new GASB accounting standards end the relationship between pension accounting and the funding of the ARC.

In addition to GASB's new accounting standards, policymakers should be aware that rating agencies such as Moody's may use yet another set of criteria to assess the impact of pension obligations on the creditworthiness of a municipal bond issuer. If the ratings agencies publicize their pension calculations, state and local officials would be faced with the challenge of interpreting three sets of pension numbers: an accounting number to comply with the GASB's financial reporting requirements, an actuarial calculation to determine funding requirements for budgeting purposes, and a financial analysis figure produced by bond rating agencies to evaluate and compare issuers of municipal debt.

This guide provides key facts about public pension plans, why it is essential to have a pension funding policy, a brief overview of the new GASB standards, and which issues state and local officials need to address. The guide also offers guidance for policy makers to use when developing their pension plan's funding policy.

Pension funding background

In the 1970s, it was not uncommon for state and local governments to fund their pensions on a pay-as-you-go basis. Following the passage of ERISA, which set private sector funding requirements, state and local officials took steps to fully advance-fund their pensions. They were further encouraged to meet their actuarial funding obligations by new accounting and reporting standards issued by the GASB in 1986.

The trend to improve pension funding continued over the next decade. When the GASB issued Statements 25 and 27 in 1994, employers were required to disclose information on plan assets and liabilities in their financial reports. More important, to comply with GASB, employers also had to disclose their actuarially determined ARC and the percentage of the ARC the employer actually paid. The GASB defined the ARC to include the normal cost of pensions for today's employees plus a contribution to pay for any unfunded liabilities, typically amortized over a maximum 30-year period. Paying the full ARC has been an important measure of whether or not a pension plan is on track to fund its pension promises.

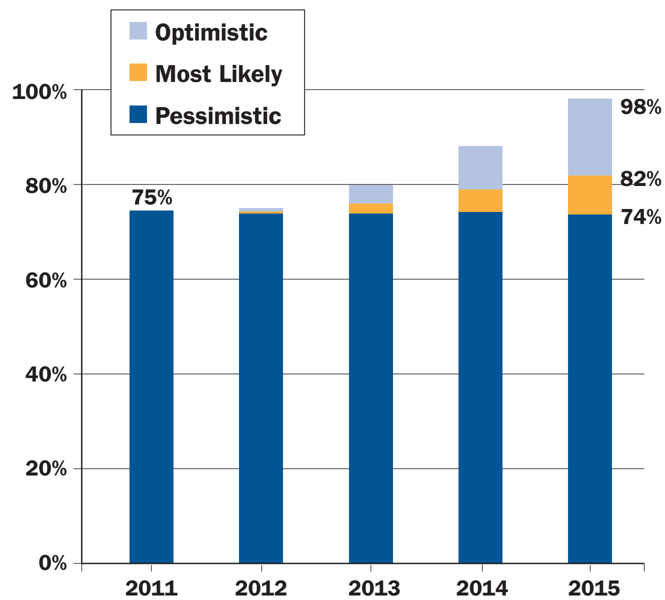
By the turn of the century, public pensions were as well funded as private pensions. In fact, most public plans were nearly 100 percent funded in 2000. Unfortunately, the last decade of economic upheaval and the wide swings in the stock market have reduced pension assets in both public and private plans.

In 2011, the estimated aggregate ratio of assets to liabilities slipped to 75 percent[1]. State and local officials have stepped up their efforts to restore pension funding. According to the National Conference of State Legislatures, 44 states have enacted major changes in state retirement plans from 2009–2012.[2] Changes have included increases in employee contributions to pension plans, longer vesting periods, reduced benefit levels, higher retirement ages, and lower cost-of-living adjustments. Some modifications may apply to new workers only, while others affect current employees and/or retirees.

Pension funding policies

A variety of state and local laws and policies guide decisions concerning pension funding practices. Many state and local governments have passed legislation that stipulates how pensions should be funded. Others have policies that address how pension assets are to be invested or if pension reserves must be maintained.

Figure 2. *Projected State and Local Funding Ratios Under Three Scenarios, 2011–2015*



Source: BC-CRR estimates for 2011–2015 based on *Public Plans Database* (PPD).

Generally speaking, employers with well-funded pension plans take a long-term approach to estimating investment returns, adjust their demographic and other assumptions as needed, and consistently pay their annual required contribution in full.

A clear pension funding policy is important because it:

- Lays out a plan to fund pensions;
- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded.

GASB's new approach

Under prior GASB statements, there was a close link between accounting and funding measures. That link has now been broken. The new GASB standards

1 Munnell, Alicia H., Aubrey, Jean-Pierre, Hurwitz, Josh, Medinica, Madeline, and Quinby, Laura, "The Funding of State and Local Pensions: 2011–2015," Center for State and Local Government Excellence, May 2012.

2 Snell, Ron, "State Retirement Legislation 2009–2012," National Conference of State Legislatures, July 31, 2012.

focus entirely on accounting measurements of pension liabilities and no longer on how employers fund the cost of benefits or calculate their ARC. This is a significant change for government employers because the ARC historically served as a guide for policy makers, employees, bond rating agencies and the public to determine whether pension obligations were being appropriately funded. The ARC also often was used to inform budget decisions.

Today, employers report a liability on the face of their financial statements only if they fail to fully fund their ARC (just as a homeowner would report a liability only for mortgage payments in arrears). Thus, many government employers today do *not* report a liability for pensions on the face of their financial statements. However, if the plan they sponsor does have an unfunded pension liability, it is reported in the notes to the financial statements, which are considered an integral part of financial reporting. In contrast, under the new GASB standards, employers will report their unfunded pension liability on the face of their financial statements, even if they fully fund each year's ARC (just as a homeowner would report a mortgage liability even if all monthly mortgage payments are paid on time, in full). Thus, in the future, all employers will report any unfunded pension liability on the face of their financial statements, and that amount may be substantial for many.

Furthermore, those seeking to know how much an employer should be contributing each year to the pension plan and how much the employer actually contributed (funding information) today can find that information in the employer's financial report. In contrast, under the new GASB pension accounting standards, employers will no longer *automatically* be required to obtain an actuarially determined ARC and then include information concerning that amount and actual employer contributions in their financial report.

Filling the gap in funding guidance

Because the GASB's new standards focus entirely on how state and local governments should account for pension liabilities and no longer focus on how employers fund the costs of benefits or calculate their ARC, a new source of guidance is needed.

To help fill that gap, the national associations representing local and state governments established a Pension Funding Task Force (Task Force) to develop policy guidelines.

The "Big 7" (National Governors Association, National Conference of State Legislatures, Council of State Governments, National Association of Counties, National League of Cities, U.S. Conference of Mayors, and the International City/County Management Association) and the Government Finance Officers Association established a pension funding task force in 2012. The National Association of State Auditors, Comptrollers and Treasurers; the National Association of State Retirement Administrators; and the National Council on Teacher Retirement also serve on it. The Center for State and Local Government Excellence is the convening organization for the Task Force.

The Task Force has monitored the work of the actuarial community and the rating agencies, as well as considered recommendations from their own organizations to develop guidelines for funding standards and practices and to identify methods for voluntary compliance with these standards and practices.

The actuarial and finance communities have been working on the pension funding issues and will be invaluable resources as governments make needed changes. Indeed, the California Actuarial Advisory Panel and the Government Finance Officers Association have issued guidelines consistent with the Task Force's recommendations, but with a greater level of specificity. The Conference of Consulting Actuaries is also preparing similar guidance. State and local officials are encouraged to review the guidelines and best practices of these organizations.

It also is important to note that some governments with well-funded pension plans will determine that they need to make few, if any, changes to their funding policies, while others may face many challenges. Keep in mind that changes can be made over time. A transition plan can address changes that may need to be phased in over a period of years. For example, an employer or retirement board that currently amortizes its unfunded liabilities over 30 years could adopt a transition plan to continue that schedule (as a fixed, decreasing period) for current unfunded liabilities and to amortize any new unfunded liabilities over 25 years. In five years, that pension plan would have completed its transition to a 25-year amortization period.

In many cases, governments will need to strike a balance between competing objectives to determine the most appropriate timeframe in which to meet their goals.

Task force recommendations

States and localities have established distinct statutory, administrative and procedural rules governing how retirement benefits are financed. While nothing in the new GASB standards or the possible credit rating agency changes *requires* a change in funding policy, the Task Force recommends pension funding policies be based on the following five general policy objectives:

1. Have a pension funding policy that is based on an actuarially determined contribution.
2. Build funding discipline into the policy to ensure that promised benefits can be paid.
3. Maintain intergenerational equity so that the cost of employee benefits is paid by the generation of taxpayers who receives services.
4. Make employer costs a consistent percentage of payroll.
5. Require clear reporting to show how and when pension plans will be fully funded.

A sound pension funding policy should address at least the following three core elements of pension funding in a manner consistent with the policy objectives:

- Actuarial cost method;
- Asset smoothing method; and
- Amortization policy.

These core elements should be consistent with the parameters established by GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with which most governmental entities currently comply. Such parameters specify an actuarially determined ARC that should comply with applicable Actuarial Standards of Practice (ASOP No. 4), be based on an estimated long-term investment yield for the plan, and should amortize unfunded liabilities over no more than 30 years. The actuarially determined ARC, the parameters for determining the ARC, and the percentage of the ARC the employer actually paid should be disclosed and reassessed periodically to be sure that they remain effective. To that end, the Task Force recommends that state and local governments not only stay within the ARC calculation parameters established in GASB 27, but also consider the following policy objectives when reviewing each core element of their funding policy:

Actuarial Cost Method: the method used to allocate the pension costs (and contributions) over an employee's working career.

<u>Policy Objectives:</u>

1. Each participant's benefit should be fully funded under a reasonable allocation method by the expected retirement date.
2. The benefit costs should be determined as a level percentage of member compensation and include expected income adjustments.

The Entry Age Normal (level percentage of payroll) actuarial cost method is especially well-suited to meeting these policy objectives.

Asset Smoothing Method: the method used to recognize gains or losses in pension assets over some period of time to reduce the effects of market volatility and provide stability to contributions.

<u>Policy Objectives:</u>

1. The funding policy should specify all components of asset smoothing, such as the amount of return subject to smoothing and the time period(s) used for smoothing a specific gain or loss.
2. The asset smoothing method should be the same for both gains and losses and should not be reset or biased toward high or low investment returns.

The use of a five-year period for "smoothing" investment experience is especially well-suited to meeting these policy objectives.

Amortization Policy: the policy that determines the length of time and structure of payments required to systematically fund accrued employee benefits not covered by the actuarial value of assets.

<u>Policy Objectives:</u>

1. The adjustments to contributions should be made over periods that appropriately balance intergenerational equity against the goal of keeping contributions level as a percentage of payroll over time.
2. The amortization policy should reflect explicit consideration of (a) gains and losses actually experienced by a plan, (b) any changes in assumptions and methods, and (c) benefit or plan changes.
3. The amortization of surplus requires special consideration consistent with the goal of stable costs and intergenerational equity.

Amortizing the various components of the unfunded actuarial accrued liability over periods that focus on matching participant demographics but also, except for plan amendments, consider managing contribution volatility, is especially well-suited to meeting these policy objectives.

Conclusion

The most important step for local and state governments to take is to base their pension funding policy on an actuarially determined contribution (ADC). The ADC should be obtained on an annual or biannual basis. The pension policy should promote fiscal discipline and intergenerational equity, and clearly report when and how pension plans will be fully funded.

Other issues to address in the policy are periodic audits and outside reviews. The ultimate goal is to ensure that pension promises can be paid, employer costs can be managed, and the plan to fund pensions is clear to everyone.

Resources

1. GFOA best practice, *Guidelines for Funding Defined Benefit Pension Plans*, at: www.gfoa.org
2. GASB Statements No. 67 and 68 at: www.GASB.org
3. GASB Statement 27: http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176160029312
4. Moody's Request for Comments: Adjustments to US State and Local Government Reported Pension Data at: http://www.wikipension.com/wiki/Moodys_Request_For_Comments
5. National Conference of State Legislatures, changes to state pension plans at: http://www.ncsl.org/documents/employ/2012-LEGISLATION-FINAL-Aug-31-2012.pdf
6. The National Association of State Retirement Administrators for examples of state funding policies at: www.NASRA.org
7. Center for State and Local Government Excellence for examples of changes to state and local government pension plans at: http://slge.org
8. California Actuarial Advisory Panel at: http://www.sco.ca.gov/caap.html
9. Conference of Consulting Actuaries at: http://www.ccactuaries.org/index.cfm

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NASRA Issue Brief
Employee Contributions to Public Pension Plans

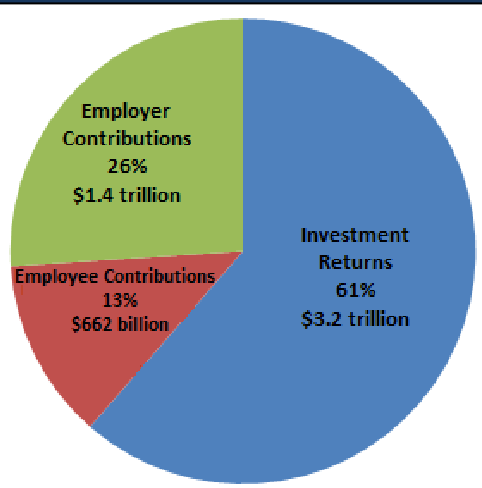
January 2014

Unlike in the private sector, nearly all employees of state and local government are required to share in the cost of their retirement benefit. Employee contributions typically are a percentage of salary as specified in statute. Although investment earnings and employer contributions account for a larger portion of total public pension fund revenues (see Figure 1), by providing a reliable and predictable stream of revenue to public pension funds, contributions from employees fill a vital role in financing pension benefits.[i] In the wake of the 2008-09 market decline, employee contribution rates in many states have increased. This issue brief examines employee contribution plan designs, policies and recent trends.

Mandatory Participation & Shared Financing

For the vast majority of employees of state and local government, both participation in a public pension plan and contributing toward the cost of the pension are mandatory terms of employment. Requiring employees to contribute distributes some of the risk of the plan between employers and employees. The primary types of risk in a pension plan pertain to investment, longevity, and inflation. Employees who are required to contribute toward the cost of their pension assume a portion of one or more of these risks, depending on the design of the plan.[ii]

Figure 1: Public pension sources of revenue, 1982-2011



Source: U.S. Census Bureau

The prevailing model for employees to contribute to their pension plan is for state and local governments to collect contributions as a deduction from employee pay. This amount usually is established as a percentage of an employee's salary and is collected each pay period. As shown in Appendix A, employee contribution rates typically are between four and eight percent of pay. In some cases, required employee contributions are subject to change depending on the condition of the plan and other factors. In some plans, the employee contribution is actually paid by the employer in lieu of a negotiated salary increase or other fiscal offset.

Some 25 to 30 percent of employees of state and local government do not participate in Social Security. In most cases, the pension benefit—and required contribution—for those outside of Social Security is greater both than the typical benefit and the required contribution for those who do participate in Social Security.

Trends in Employee Contributions

Many states in recent years have made changes requiring employees to contribute more toward their retirement benefits: since 2009, 36 states (including Puerto Rico) have increased required employee contribution rates[iii] (see Figure 2). Appendix A lists employee contribution requirements for state plans in the Public Fund Survey.

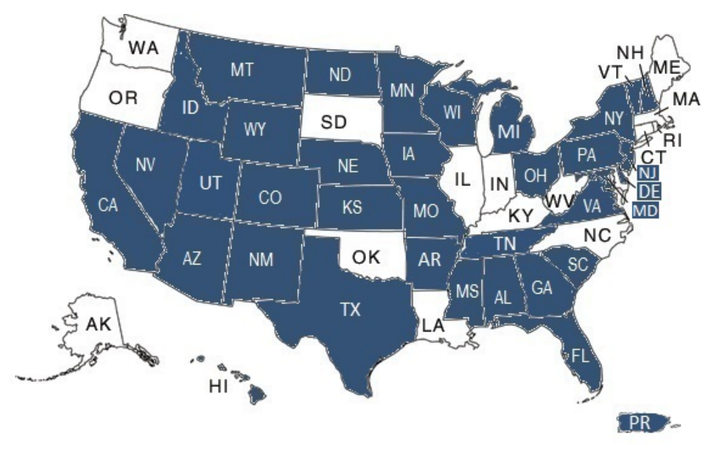
New Contributions

Some states, such as **Missouri, Florida,** and **Virginia,** which previously did not require some employees to make pension contributions, have now added required contributions for newly hired employees, existing workers, or both.

Variable Contributions
Pennsylvania recently joined other states, such as **Arizona, Iowa, Kansas,** and **Nevada,** in maintaining an employee contribution rate that varies depending on the pension plan's actuarial condition. Because of the effect investment returns have on a pension plan's actuarial condition, employee contributions generally will rise following periods of sub-par investment returns and fall when investment returns exceed expectations. Changes approved in **California** require many workers to pay one-half of the normal cost of the benefit, which can result in a variable contribution rate. And the **Utah** plan affecting new hires requires employees to contribute the full cost of the benefit above 10 percent of pay, which could become variable.

Increased Contributions for Current Plan Participants
States such as **New Mexico** and **Wyoming** have increased employee contributions for all workers-current and future. In some cases, such as **Virginia** and **Wisconsin**, new and existing employees are now required to pay the contributions that previously were made by employers in lieu of a salary increase.

Figure 2: States that have increased employee contributions in at least one public pension plan since 2009



Transferred Risk
Another way employees are paying more is through the establishment of hybrid plans, which transfer risk from the employer to the employee. For example, in 2012 **Kansas** created a new cash balance plan (effective 1/1/15) and **Tennessee** in 2013 created a new combination defined benefit-defined contribution plan, for newly-hired workers in the case of both states. Some employees in other states, including **Georgia**, **Nebraska, Oregon,** and **Texas**, already participate in hybrid plans, which distribute a greater share of risk to the employee.

Collective Bargaining
Employee contributions in some cases are set by collective bargaining, and can be changed when labor agreements are negotiated. For example, required employee contribution rates for many employee groups in **California** have increased in recent years as a result of labor agreements in that state.

Legal Landscape
The legality of increasing contributions for current plan participants varies. Some states prohibit an increase in contributions for existing plan participants. Judges in **Arizona** and **New Hampshire** have ruled recently that legislative efforts to increase contributions on existing workers are a violation of the state constitution or contractual rights. In other states, however, higher employee contributions either have not produced a legal challenge (such as in **Minnesota** and **Mississippi**), or have withstood legal challenges (such as **New Mexico**). Legal challenges to higher employee contributions remain unsettled in several states.

Conclusion
The vast majority of employees of state and local government are required to contribute to the cost of their pension benefit. This number has grown in recent years, as most states that previously administered non-contributory plans now require worker contributions.

Employees also are being required to contribute more. In some cases, this requirement applies to both current and new workers; in other cases, only to new hires.

A growing number of states are exposing employee contributions to risk – either by tying the rate directly to the plan's investment return, or by requiring hybrid or 401k-type plans as a larger component of the cost of the employee's benefit.

Some of these changes to contribution requirements affecting existing plan participants are currently under legal review. The outcome of these legal challenges is likely to affect additional future reforms in this area.

See Also

Information is available on public pension contributions at

- Contributions @ NASRA.org
- Pension Reform @ NASRA.org
- Contribution Rates and Funding Issues @NASRA.org
- Public Fund Survey Summary of Findings for FY 2012, NASRA and NCTR

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[i] NASRA Issue Brief: Public Pension Plan Investment Return Assumptions (December 2013)
[ii] NASRA Issue Brief: State Hybrid Retirement Plans, Part II: Shared-risk arrangements (August 2012)
[iii] In 2011, Arizona passed a law increasing employee contributions which was ruled unconstitutional. Decisions are expected in cases involving similar contribution increases in other states.

Appendix A: Employee contribution rates for statewide plans

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
AK	Alaska PERS	6.75% for general employees; 7.5% for police and fire	No
AK	Alaska Teachers	8.65%	No
AL	Alabama ERS	6.0% to 7.5% depending on date of hire; state police contribute 10.0%; other law enforcement officers, correctional officers, and firefighters contribute 7.0% to 8.5% depending on date of hire	Yes
AL	Alabama Teachers	6.0% to 7.5%, depending on date of hire	Yes
AR	Arkansas PERS	5.0% for those hired since 7/1/05	Yes
AZ	Arizona Public Safety Personnel	9.55%, rising gradually to 11.65% by 2014	Yes
AZ	Arizona SRS	11.30%	Yes

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
CA	California PERF	Most state employees contribute 8.0%; state safety, firefighters, and police contribute 9% to 12% depending on the benefits offered; school employees contribute 7.0%; most local agency miscellaneous, firefighters and police officers contribute between 7% and 9% depending on the benefits offered. Beginning January 1, 2013, new members will contribute between 6.0% up to a maximum of 12.0% depending on the employee classification and benefits offered.	Both
CA	California Teachers	8.0%; members hired on or after 1/1/13 are required to pay at least one-half of the plan's normal cost, rounded up to the nearest one-quarter percent. The normal cost currently is estimated to be 7.85%, so all participants are paying 8.0%.	No
CO	Colorado Affiliated Local	Varies by plan; most employees contribute between 5% and 10% of pay	No
CO	Colorado Fire & Police Statewide	8.0%	No
CO	Colorado Municipal	8.0%	No
CO	Colorado School	8.0%	No
CO	Colorado State	8.0%; state troopers contribute 10.0%	No
CT	Connecticut SERS	2.0% for those hired since July 1997; 5.0% for public safety personnel	Yes
CT	Connecticut Teachers	6.0%	No
DC	DC Police & Fire	8.0%	No
DC	DC Teachers	8.0%	No
DE	Delaware State Employees	3.0% of pay above $6,000; employees hired after 12/31/11 pay 5.0% of pay above $6,000	Yes
FL	Florida RS	3.0%	Yes
GA	Georgia ERS	1.25%	Yes
GA	Georgia Teachers	6.0%	Yes
HI	Hawaii ERS	7.8% for general employees and teachers; 12.2% for public safety officers; those hired after 6/30/12 pay 9.8% and 14.2%, respectively	Yes
IA	Iowa PERS	5.95% for regular employees; 6.76% for protection occupations; 9.88% for sheriffs. These rates are in effect from 7/1/13-6/30/15. The IPERS board has authority to adjust rates up to one percent in a given year.	Yes
ID	Idaho PERS	6.79%; 8.36% for public safety personnel	Yes

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
IL	Illinois Municipal	3.75% for general employees; 6.75% for law enforcement personnel; all members contribute an additional 0.75% for survivor's pension, for total contribution rates of 4.50% and 7.50%, respectively	Yes
IL	Illinois SERS	3.5% for those covered by Social Security, plus 0.5% for survivor's pension benefit, 7.0% for those not covered, plus 1.0% for survivor's pension benefit; public safety members contribute 9.5%; rates decrease by 1.0% on 7/1/14	Yes
IL	Illinois Teachers	8.40%, plus an additional 1.0% for survivor's pension benefits for a total of 9.40%; rates decrease by 1.0% on 7/1/14	No
IL	Illinois Universities	7.0%; public safety personnel contribute 8.5%; all members contribute an additional 1.0% for survivor's pension benefits; rates decrease by 1.0% on 7/1/14	No
IN	Indiana PERF	3.0%	Yes
IN	Indiana Teachers	3.0%	Yes
KS	Kansas PERS	4.0% or 6.0%, depending on employee election of benefit level	Yes
KY	Kentucky County	5.0%; for those hired after 8/31/08, contributions are made to individual plan accounts	Yes
KY	Kentucky ERS	5.0%; for those hired after 8/31/08, contributions are made to individual plan accounts	Yes
KY	Kentucky Teachers	Non-university members contribute 11.355% (increasing to 12.855% in 2015-16); University members contribute 7.16% (increasing to 8.185% in 2015-16)	No
LA	Louisiana Parochial Employees	9.25% for members covered by Social Security; 3.0% for members not covered by Social Security	No, for approximately 85% of members
LA	Louisiana SERS	8.0% for regular employees; hazardous duty members contribute 9.5%	No
LA	Louisiana Teachers	8.00%	No
MA	Massachusetts SERS	5% to 9%, depending on member's date of entry, plus 2% of pay above $30,000; state police contribute 12%	No
MA	Massachusetts Teachers	5% to 11%, depending on member's date of entry; those hired after 2000 pay 11.0%	No
MD	Maryland PERS	7.0%	Yes
MD	Maryland Teachers	7.0%	Yes
ME	Maine Local	Ranges from 3.0% to 8.0%	Yes, for approximately half of the members
ME	Maine State and Teacher	7.65%; 8.65% for law enforcement officers	No
MI	Michigan Municipal	0% to 10%, depending on employer election	Yes

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
MI	Michigan Public Schools	Employees hired on or after 7/1/10 choose between a hybrid plan with a 6.4% contribution for the DB component and a 2.0% optional contribution to the DC component, or a DC plan with a zero to 6.0% optional contribution. Active DB members contribute based on their designated plan type, ranging from zero to 7.0%.	Yes
MI	Michigan SERS	Employees hired since 1997 are enrolled in a DC plan with an optional contribution rate of zero to 3.0%; (active DB plan members contribute 4%	Yes
MN	Minnesota PERF	6.25%; 9.6% for police and fire	Yes (except police and fire)
MN	Minnesota State Employees	5.0%; 8.6% for correctional officers	Yes
MN	Minnesota Teachers	7.0%, increasing to 7.5% on 7/1/14	Yes
MO	Missouri DOT and Highway Patrol	4.0% for those hired after 12/31/10	Yes
MO	Missouri Local	Non-contributory or 4%, depending on employer election; most plans are non-contributory	Yes
MO	Missouri PEERS	6.86%	Yes
MO	Missouri State Employees	4.0% for those hired after 12/31/10	Yes
MO	Missouri Teachers	14.50%	No
MS	Mississippi PERS	9.0%; Highway Patrol Officers contribute 7.25%	Yes
MT	Montana PERS	7.90%	Yes
MT	Montana Teachers	7.15%; those hired since 7/1/13 contribute 8.15%	Yes
NC	North Carolina Local Government	6.0%	Yes
NC	North Carolina Teachers and State Employees	6.0%	Yes
ND	North Dakota PERS	7.0%; law enforcement officers pay 8.31%	Yes
ND	North Dakota Teachers	9.75%, rising to 11.75% as of 7/1/14	Yes
NE	Nebraska County	4.5%	Yes
NE	Nebraska Schools	9.78%	Yes
NE	Nebraska State	4.8%	Yes
NH	New Hampshire Retirement System	7.0% for general employees and teachers; 11.8% for firefighters; 11.55% for police officers.	Yes, for general employees and teachers; No, for public safety

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
NJ	New Jersey PERS	6.50%, rising gradually to 7.50%	Yes
NJ	New Jersey Police & Fire	10.0%	Yes
NJ	New Jersey Teachers	6.50%, rising gradually to 7.50%	Yes
NM	New Mexico PERF	7.42% for those with a salary below $20,000; 8.92% for those with a salary above $20,000	Yes
NM	New Mexico Teachers	7.9% for those with a salary below $20,000; 10.1% for those with a salary above $20,000, rising to 10.7% in FY 15 and thereafter	Yes
NV	Nevada Police Officer and Firefighter	20.75%	No
NV	Nevada Regular Employees	13.25%	No
NY	New York State Teachers	Those hired before 1/1/10 contribute 3.0% if <10 years of service, 0% if 10+ years of service; Those hired on or after 1/1/10 but before 4/1/12 contribute 3.5%; Those hired on or after 4/1/12 contribute 3.0% to 6.0% depending on date of hire and salary	Yes
NY	NY State & Local ERS	Those hired before 1/1/10 contribute 3.0% if <10 years of service, 0% if 10+ years of service; Those hired on or after 1/1/10 but before 4/1/12 contribute 3.5%; Those hired on or after 4/1/12 contribute 3.0% to 6.0% depending on date of hire and salary	Yes
NY	NY State & Local Police & Fire	Those hired between 7/1/09 through 1/8/10 contribute 3.0%; Those hired since 1/9/10 contribute 3%-6% based on annual salary for most participants	Yes
OH	Ohio PERS	10.0%; law enforcement personnel contribute 13.0%	No
OH	Ohio Police & Fire	10.75%; increasing by an additional 0.75% in each of the next two years until reaching 12.25% on 7/1/15	No
OH	Ohio School Employees	10.0%	No
OH	Ohio Teachers	11.0%; increasing by an additional 1% in each of the next 3 years until reaching 14% on 7/1/16	No
OK	Oklahoma PERS	3.5% for state employees; 3.5% to 8.5% for employees of county and local agencies; hazardous duty members pay 8.0%	Yes
OK	Oklahoma Teachers	7.0%	Yes
OR	Oregon PERS	Effective 1/1/04, non-contributory for the DB plan; 6.0% for the individual accounts	Yes
PA	Pennsylvania School Employees	7.5% for most participants; rates for those hired after 6/30/11 are subject to class selection, either 7.5% or 10.30%. Rates are subject to a limited graduating scale (200 bps) based on investment performance and the plan's funding level	Yes
PA	Pennsylvania State ERS	6.25% for most participants; rates for those hired after 6/30/11 are subject to a limited graduating scale based on investment performance and the plan's funding level	Yes (except state police officers)

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
PR	Puerto Rico Government Employees	10% (except members selecting the Coordination Plan contribute 5.775% up to $6,600 plus 8.275% of compensation in excess of $6,600)	Yes (except police)
PR	Puerto Rico Teachers	9.0%	No
RI	Rhode Island ERS	State employees and teachers contribute 3.75% to the DB plan plus 5% to the DC plan; teachers who do not participate in Social Security contribute 7% to the DC plan	Yes
RI	Rhode Island Municipal	1.0 to 2.0% for general employees; 7.0% to 10.0% for public safety personnel; 5% for general employees to the DC plan; 7% for public safety personnel (non-SS) to the DC plan	Yes
SC	South Carolina Police	7.50%; increasing to 8.0% on 7/1/14	Yes
SC	South Carolina RS	7.50%; increasing to 8.0% on 7/1/14	Yes
SD	South Dakota PERS	6.0%; public safety personnel contribute 8.0%	Yes
TN	TN Political Subdivisions	Employers may elect the non-contributory option; otherwise, 5%; Newly hired local government employees may participate in a hybrid plan upon their employer's election. Mandatory contribution rates are 5% to the DB plan and 2% to the DC plan.	Yes
TN	TN State and Teachers	Non-contributory for most state and higher education employees; 5% for teachers; Employees hired after 7/1/14 participate in a hybrid plan with mandatory contribution rates of 5% to the DB plan and 2% to the DC plan	Yes
TX	Texas County & District	Employers set the employee contribution rate in a range from 4.0% to 7.0%; the weighted average is 6.7%	Yes
TX	Texas ERS	6.6%, rising to 7.5% in FY 17 and thereafter	Yes
TX	Texas LECOS	LECOS is a supplementary plan to the ERS of Texas; participants contribute 0.5% plus the ERS of Texas contribution.	Yes
TX	Texas Municipal	5%, 6%, or 7%, depending on ER election	Yes
TX	Texas Teachers	6.4%, rising to 7.7% in FY 17 and thereafter	No
UT	Utah Noncontributory	Non-contributory for employees hired before 7/1/11; Employees hired after that date may elect participate in a hybrid plan or a DC plan. Employee contributions in the hybrid plan are required when the costs of the DB portion of the plan exceed 10%. DC contributions are optional.	Yes
VA	Virginia Retirement System	5.0% for participants other than judges and elected officials; Employees hired on or after 1/1/14 participate in a hybrid plan with mandatory contributions of 4% to the DB plan and 1% to the DC plan.	Yes

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
VT	Vermont State Employees	6.40% through 6/30/16 (rate is lowered to 5% if plan funding is 100% before 6/30/16)	Yes
VT	Vermont Teachers	5.0%	Yes
WA	Washington LEOFF Plan 1	0%	Yes
WA	Washington LEOFF Plan 2	8.41%	Yes
WA	Washington PERS 1	6.0%	Yes
WA	Washington PERS 2/3	4.92%; Plan 3 members contribute only to their defined contribution plan at between 5% and 15%	Yes
WA	Washington School Employees Plan 2/3	4.64% for Plan 2 members; Plan 3 members contribute only to their defined contribution plan at between 5% and 15%	Yes
WA	Washington Teachers Plan 1	6.0%	Yes
WA	Washington Teachers Plan 2/3	4.96% for Plan 2 members; Plan 3 members may contribute 5% to 15% to the defined contribution plan component	Yes
WI	Wisconsin Retirement System	7.0%	Yes
WV	West Virginia PERS	4.50%	Yes
WV	West Virginia Teachers	6.0%	Yes
WY	Wyoming Public Employees	7.0%; law enforcement personnel contribute 8.6%	Yes

NASRA Issue Brief:
State Hybrid Retirement Plans

September 2013

Although hybrid plans have been in place in public sector retirement systems for decades, this plan design has received increased attention in recent years. This new focus occurs as states find that closing their traditional pension plan to future (and, in some cases, existing) employees could increase—rather than reduce—costs,[1] and that providing only a 401(k)-type plan does not meet important retirement security, human resource, or fiscal objectives. While most states have chosen to retain their defined benefit (DB) plan by modifying required employer and employee contributions, restructuring benefits, or both,[2] some also have looked to so-called "hybrid" plans that combine elements of traditional pensions and individual account plans.

Although a hybrid retirement plan may take one of many forms, this brief examines two broad types in use in the public sector. The first is a cash balance plan, which marries elements of traditional pensions with individual accounts into a single plan (see Table 1). The second type combines a smaller traditional DB plan with an individual defined contribution (DC) retirement savings account, referred to in this brief as a "DB+DC plan" (see Table 2). Despite variability among these plans, most contain the core features known to promote retirement security: mandatory participation, shared financing between employers and employees, pooled assets invested by professionals, a benefit that cannot be outlived, and survivor and disability protections.

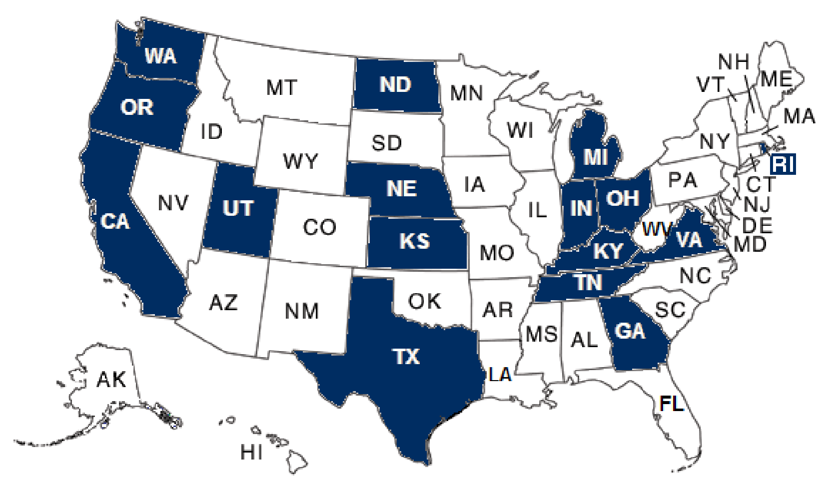
Mandatory Participation

In the private sector, just one-half of the workforce participates in an employer-sponsored retirement plan,[3] widely recognized as a major factor contributing to the nation's retirement insecurity. By contrast, for nearly all employees of state and local government, retirement plan participation is mandatory.

Employee participation remains mandatory in state hybrid plans. One partial exception is the Georgia Employees' Retirement System (ERS), which administers a hybrid plan for many of its members. Participation in the DB component of the plan is mandatory, and participants may elect to not participate in the DC component (although the vast majority have not exercised this election).

Most public employees also have access to a supplemental, voluntary individual retirement savings plan, such as a 401(k), 403(b) or 457 plan. In addition to mandatory participation in the primary plan, some public employers automatically enroll new hires in supplemental retirement savings plans, and participants may opt-out at any time.

Figure 1: States that administer CB or DB+DC plans as a mandatory or optional primary retirement benefit for groups of general or K-12 educational employees



Shared Financing among Employers and Employees

Nearly all traditional pensions in the public sector require employees to contribute toward the cost of their retirement benefit,[4] and in the wake of the 2008-09 market decline and the Great Recession, many states have increased employees' required contributions.[5]

Hybrid plans also typically employ a shared financing approach to retirement benefits. State cash balance plans, which feature accruals on employee accounts (cash balances), are funded with mandatory contributions from both employees and employers.

DB+DC plans vary regarding the level to which employees and employers are required to contribute toward the DB and DC components. As examples, for the hybrid plans in Indiana, Ohio, Oregon, and Washington, the employer finances the DB component, and the DC component is funded by mandatory employee contributions (ranging from 3 percent to 15 percent of salary). The Michigan Public Schools hybrid plan requires employees to contribute to the DB component on a graduated scale based on pay, and employers finance the remainder; employees are also required to make a mandatory 2-percent-of-salary contribution to the DC component, which employers match at a 50 percent rate.

The Georgia ERS hybrid requires employees to contribute 1.25 percent of salary to the DB component, with the remainder financed by the employer. Employees are automatically enrolled in the DC component at 1% of salary, but may opt out or contribute more. Employers match the first 1 percent of salary and one-half of the next 4 percent of salary voluntarily contributed by the employee to the DC plan.

The Utah retirement system requires employers to contribute 10 percent of salary (12 percent for public safety) toward the DB plan's cost.[6] If the cost is less than the employer's 10 percent contribution rate, the difference goes into employees' individual 401(k) savings account. If the cost of the DB plan exceeds the employer's 10 percent contribution rate, employees must contribute the difference to the DB plan. In either instance, employees may elect to make additional contributions to the 401(k) plan. (Employers in Utah must also contribute five percent of pay to the Utah Retirement System to amortize the unfunded pension liability.)

North Dakota PEP

North Dakota offers most of its workers an optional hybrid retirement plan designed to provide greater portability.

Known as "PEP" —Portability Enhancement Program— North Dakota PERS participants can vest in the employer's portion of the defined benefit plan by participating in a supplemental deferred compensation account, funding a benefit that is more portable than the traditional defined benefit plan and similar to a defined contribution plan.

Pooled Assets

Retirement assets that are pooled and invested by professionals offer important advantages over individual, self-directed accounts. Combined portfolios have a longer investment horizon, which allows them to be better diversified and to sustain greater market volatility. In addition, the professional asset management and lower administrative and investment costs in pooled arrangements result in higher investment returns.

As with traditional pension plan assets, cash balance plan assets are pooled, invested by professionals, and guarantee annual returns to plan participants. Likewise, DB+DC plans pool assets in the DB component; the manner in which DC plan assets are managed varies. Most plans provide a range of risk-based investment options: some are retail mutual funds and others are maintained by the retirement system and available only to plan participants. Assets in the Oregon DC component, for example, are pooled and invested in a fund similar to the DB plan fund; participants do not have a choice regarding how their DC plan assets are managed. Similarly, Washington State provides an option for employees to invest their DC assets in a fund that emulates the DB plan fund.

Required Lifetime Benefit Payouts

A core objective of retirement plans is to provide lifetime income insurance. A major threat to lifetime income is known as longevity risk, which is the danger of exhausting assets before death. Ensuring lifetime income can be accomplished in part by pooling longevity risk, i.e., distributing that risk among many plan participants. The alternative is an arrangement, embodied in defined contribution plans, in which longevity risk is borne by individuals.

Most public sector plans require some or all of the pension benefit to be paid in the form of an annuity – installments over one's retired lifetime – rather than allowing benefits to be distributed in a lump sum. This not only better ensures participants will not exhaust retirement assets, but it also reduces costs by allowing retirement assets to be invested as part of the trust over a longer period, and by funding for average longevity rather than the maximum longevity.

As examples, the two statewide cash balance plans in Texas require participant accounts to be paid in the form of a lifetime benefit; county and district employees may elect to receive 100% of their benefit as a partial lump sum upon retirement. The Nebraska cash balance plan gives employees the option of receiving a lifetime benefit payout on any portion of their account balance, and to receive any portion of their retirement benefit as a lump sum.

DB+DC plans normally require the DB portion of the plan to be paid in the form of a lifetime annuity. The DC portion, however, usually may be paid out in various forms including a lifetime benefit, a lump sum or partial lump sum of the account balance, or installments over a certain term (e.g., 5, 10, 15 or 20 years).

Social Security, Disability and Survivor Benefits

Approximately 25 percent of state and local government employees do not participate in Social Security.[7] While most public sector retirement plan designs seek to replace a targeted percentage of income, they often also reflect the presence or absence of income from Social Security.

Benefits that provide income insurance in the event of death or disability are an important feature among public sector employers, particularly for jobs that involve hazardous conditions. Most public sector retirement plans—whether traditional or hybrid—include survivor and disability benefits, which is a cost-effective method for sponsoring these benefits.

Conclusion

Nearly every state has made changes in recent years to the retirement plans.[8] While DB plans remain the prevailing model, cash balance and DB+DC plans have been in place for many years in some states, and are new in others. The diversity in public sector plan design reflects the fact that a one-size-fits-all solution does not meet public employer human resource and fiscal objectives. Like defined benefit plans, cash balance and DB+DC plans in the public sector vary from one jurisdiction to the next, and no single design will address the cost and risk factors of every state or local government.

A key factor in evaluating a retirement plan is the extent to which it contains the core elements known to best meet human resource and retirement policy objectives of state and local governments: mandatory participation, shared financing, pooled investments, benefit adequacy, and lifetime benefit payouts. These features are a proven means of delivering income security in retirement, retaining qualified workers who perform essential public services, and providing an important source of economic stability to every city, town, and state across the country.[9]

Most public retirement systems seek to provide a benefit that meets these objectives while balancing risk between employees and employer units. The information in the tables below illustrates the degree to which states are using various cash balance and DB+DC designs to achieve these objectives.

See Also

National Association of State Retirement Administrators, Resolution 2010-01: *Guiding Principles for Retirement Security and Plan Sustainability*, http://www.nasra.org/resolutions.htm#201001

National Association of State Retirement Administrators Issue Brief: Shared-Risk Arrangements, http://www.nasra.org/resources/issuebrief120801.pdf

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

National Institute on Retirement Security, *A Better Bang for the Buck: The Economic Efficiencies of Pensions*, 2008, http://www.nirsonline.org/index.php?option=com_content&task=view&id=121&Itemid=48

National Institute on Retirement Security, *Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers*, 2011, http://www.nirsonline.org/storage/nirs/documents/Decisions%20Decisions/final_decisions_decisions_report.pdf

National Institute on Retirement Security, *Look Before You Leap: The Unintended Consequences of Pension Freezes*, 2008, http://www.nirsonline.org/index.php?option=com_content&task=view&id=173&Itemid=49

U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in States and Local Government in the U.S.*, March 2011, http://www.bls.gov/ncs/ebs/benefits/2011/ownership/govt/table02a.pdf

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[1] NASRA, "Costs of Switching from a DB to a DC Plan," http://www.wikipension.com/index.php?title=Studies_and_reports#State_Studies

[2] NASRA, "Selected Approved Changes to State Public Pensions to Restore or Preserve Plan Sustainability," http://www.nasra.org/resolutions.htm#200701

[3] U.S. Department of Labor, Bureau of Labor Statistics, Retirement Benefits: Access, Participation and Take-Up Rates, July 2013, http://www.bls.gov/news.release/pdf/ebs2.pdf

[4] Public Fund Survey, www.publicfundsurvey.org

[5] NASRA, "Selected Approved Changes," supra

[6] Employers are also required to contribute an actuarially determined rate each year to amortize the DB plan unfunded liability

[7] U.S. Government Accountability Office, "Social Security: Issues Regarding the Coverage of Public Employees," 2007, http://finance.senate.gov/imo/media/doc/1110607testmn1.pdf

[8] National Conference of State Legislatures, "State Retirement Legislation," http://www.ncsl.org/documents/employ/Basic-Presentation-July2012.pdf

[9] National Institute on Retirement Security, *Pensionomics: Measuring the Economic Impact of State & Local Pension Plans,* 2009, http://www.nirsonline.org/index.php?option=com_content&task=view&id=189&Itemid=48

Table 1: Overview of Cash Balance Hybrid Plans						
	TX Municipal	**TX County and District**	**CA State Teachers**	**NE County and State**	**KS PERS**	**KY RS**
Year plan approved	1947	1967	1995 for the Cash Balance Benefit Program, 2000 for the Defined Benefit Supplement	2002	2012	2013
Employee groups affected	Mandatory for EEs of 800+ cities that have elected to participate in the TMRS	Mandatory for EEs of 600+ counties and special districts that have elected to participate in the TCDRS	The Cash Balance Benefit Program is optional for part-time and adjunct educational workers; the Defined Benefit Supplement is a cash balance plan provided to full-time educators	Mandatory for county and state EEs* hired after 2002 and those hired previously who elected to switch from the DC plan	Mandatory for EEs of state and local government, including education employees, hired after 1/1/15	Mandatory for new state and local EEs, judges, and legislators who become members on or after January 1, 2014
Contributions	EEs pay 5%, 6%, or 7%, depending on ER* election ER pays 100%, 150%, or 200% of EE rate, also depending on ER election, and adjusted based on unfunded liability	EEs pay 4%, 5%, 6%, or 7% depending on ER election ERs pay normal cost plus amount to amortize the unfunded liability within a 20-year closed period	EEs in the Cash Balance Benefit Program typically pay approximately 4% of earnings, depending on local bargaining agreements; Defined Benefit Supplement EEs contributed 2% from 2001-2010 Beginning in 2011, ER and EEcontributions to the Defined Benefit Supplement are 8% each on compensation in excess of one-year of service credit ER must contribute at least 4% for Cash Balance Benefit participants and the combined EE/ER rate must be at least 8%	State EEs contribute 4.8%, county EEs contribute 4.5% State contributes 156% of EE rate; counties contribute 150% of EE rate	EEs contribute 6% ER contributes between 3-6% depending on how long the member has been employed	EEs contribute 5%; public safety EEs contribute 8% State contributes 4%; , 7.5% for public safety EEs

	TX Municipal	TX County and District	CA State Teachers	NE County and State	KS PERS	KY RS
Rate of return applied to cash balances	5% (set by statute): The TMRS Board determines the allocation of any excess amounts; the board is authorized to distribute such amounts a) to reduce cities' unfunded liabilities; b) to EEs' individual accounts, and/or c) to a reserve to help offset future investment losses	7% (set by statute): Used to reduce ERs' Members' accounts receive an annual interest credit of 7% as specified by statute	Guaranteed minimum interest rate is based on 30-year U.S. Treasury bonds for the period from March to February immediately prior to the plan year (3% for plan year 2013-14)	Based on the federal mid-term rate plus 1.5%: When the mid-term rate falls below 3.5%, EEs receive a 5% minimum credit rate When favorable returns combine with an actuarial surplus, the governing board may approve a dividend payment to EE accounts	Members are guaranteed an annual rate of return of 5.25% on their accounts	Employee accounts are guaranteed 4% annual return; accounts also receive 75% of all returns above 4%
Benefit payment options	Annuity with or without a partial lump sum, depending on EE election	LIfetime annuity based on EE final savings account balance, less any EE-elected partial lump-sum payment, plus ER matching	Lump-sum and/or monthly lifetime annuity or period certain monthly annuity	Retiring participants may annuitize any portion of their cash balance and take a lump sum of any remainder. Members electing an annuity may also elect to take a reduced benefit with an automatic annual COLA	Retiring participants may annuitize their cash balance and may elect to take up to 30 percent as a lump sum. Participants may also elect to use a portion of their balance to fund an auto-COLA	Member may choose annuity payments, a payment option calculated as the actuarial equivalent of the life annuity, or a refund of the accumulated account balance
Info online	www.tmrs.com/down/pubs/tmrs_facts.pdf	http://www.tcdrs.org	http://www.calstrs.com/sites/main/files/file-attachments/basics_cash_balance_plan.pdf	www.npers.ne.gov	http://www.kpers.org	https://kyret.ky.gov/images/uploads/news/Summary_of_Senate_Bill_2_changes.pdf

* EE = employee; ER = employer

Table 2: Overview of Defined Benefit + Defined Contribution (DB+DC) Hybrid Plans											
	IN Public RS	**WA Dept of RS**	**OH State Teachers' RS**	**OH Public Employees' RS**	**OR PERS**	**GA Employees' RS**	**MI Public Schools RS**	**UT RS**	**RI ERS**	**VA RS**	**TN Consolidated Retirement System**
Year plan approved	1955	1996	2001	2002	2003	2008	2010	2010	2011	2012	2013
Employee groups affected	Mandatory except for EE hired after 2011 who may elect a DC plan only	Optional for most employee groups	Optional for new hires and non-vested workers since 2001	Optional for new hires and non-vested workers since 12/31/02	Mandatory for all EEs (existing and new) since 2004	Mandatory for new hires since 2009; optional for those hired before 2009 (EE* may opt-out of DC component within 90 days)	Mandatory for all new hires after 06/30/2010	Mandatory for new hires as of 07/01/2011; all EEs may elect DC-only plan	Mandatory for existing members of ERS as of July 1, 2012, as well as new hires (except judges and some public safety members)	Mandatory for most state and local employees, educational employees, and judges, hired on or after 1/1/14 – excluding state police and other law enforcement officers	Mandatory for new state and higher education employees and teachers hired after July 1, 2014; optional for local government entities
Defined Benefit Portion											
DB benefit formula (having met age/service requirements)	1.1% x years of service x final average salary = annual benefit	1% x years of service x final average salary = annual benefit	1% x years of service x final average salary = annual benefit	1% x up to 30 years of service x final average salary + 1.25% x years in excess of 30 x final average salary = annual benefit	Varies depending upon date of hire and which of 3 DB plans EE is enrolled in	1% x years of service x final average salary = annual benefit	1.5% x years of service x final average salary = annual benefit	1.5% x years of service x final average salary = annual benefit For public safety: 2% x years of service x final average salary = annual benefit	1% x years of service x final average salary = annual benefit	1% x years of service x final average salary = annual benefit	1% x years of service x final average salary (maximum annual pension benefit of $80,000, indexed by CPI)

	IN Public RS	WA Dept of RS	OH State Teachers' RS	OH Public Employees' RS	OR PERS	GA Employees' RS	MI Public Schools RS	UT RS	RI ERS	VA RS	TN Consolidated Retirement System
DB plan contributions	ER funds the DB benefit	ER funds DB benefit	ER funds DB benefit	ER funds DB benefit	ER funds DB benefit	EE contributes 1.25% and ER contributes the remainder of the annual actuarially determined contribution rate	EE contributes on a graduated scale based on pay; ER contributes remainder	ER pays up to 10% of pay, 12% for public safety (+ 5% to amortize the DB unfunded liability). EEs pay into DB only if the normal cost of the plan exceeds maximum ER contribution	State EEs and teachers contribute 3.75% to the DB plan; municipal EEs contribute 1% or 2% based on COLA election; municipal police and fire contribute 7 or 8% based on COLA election. ER contributions to the DB plan remain unchanged	EE contributes 4% to the DB plan ER contributes an actuarially determined amount to fund the DB benefit (less employer DC contributions)	EE contributes 5% to the DB plan ER contributes 4%
Defined Contribution Portion											
Employer DC plan contributions	None	None	None	None	None	100% ER match on EE's 1st 1% of salary and 50% match on next 4% of salary for a maximum ER contribution of 3%	ER contributes 1% of salary	ER contributes 10% (12% for public safety); if DB cost is more, EE must pay but if less, the difference is applied to EE's DC account	ER contributes 1% to the DC plan for state and local EEs and teachers; 3% for municipal police and fire EEs not covered by Social Security	Mandatory ER contributions of 1% - increases with EE contributions up to 3.5% maximum	ER contributes 5% to the DC plan

	IN Public RS	WA Dept of RS	OH State Teachers' RS	OH Public Employees' RS	OR PERS	GA Employees' RS	MI Public Schools RS	UT RS	RI ERS	VA RS	TN Consolidated Retirement System
Employee DC plan contributions	3% of salary	5% to 15% of salary depending on EE	10% of salary	10% of salary	6% of salary	EE auto enroll at 1% of salary contribution but may vary contribution rate up or down; participants may opt-out of the DC plan within 90 days of their date of hire	2% of salary	EE contributions optional	State and local EEs and teachers contribute 5% to the DC plan; 3% for municipal police and fire EEs not covered by Social Security	EEs may contribute up to 5% to the DC plan (1% minimum)	EEs contribute 2%, with opt-out feature
DC plan investment options	7 options ranging from conservative to aggressive, and 10 target date funds, all administered by the retirement system	Either the total allocation portfolio, which mirrors DB plan fund, or 7 self-directed funds ranging from conservative to aggressive, plus target date funds	8 options ranging from conservative to aggressive including a guaranteed return option	16 OPERS-sponsored funds including core and target date funds, plus a brokerage window	All DC plan contributions are invested in a single, pooled fund that mirrors the DB plan fund	16 options ranging from conservative to aggressive, plus 5 lifecycle funds	Choice of active and passive investment options, target date funds, and a brokerage window	12 risk-based options	12 target date funds and 10 funds ranging from conservative to aggressive	11 options ranging from conservative to aggressive, plus 10 target date funds.	11 target date funds and 15 options ranging from conservative to aggressive

	IN Public RS	WA Dept of RS	OH State Teachers' RS	OH Public Employees' RS	OR PERS	GA Employees' RS	MI Public Schools RS	UT RS	RI ERS	VA RS	TN Consolidated Retirement System
Default DC plan investment options	The Guaranteed Fund, which earns a fixed rate established annually by the Board	Target Date Funds	Money market fund	Target Date Fund closest to the year the participant turns 65	DB plan fund	Lifecycle funds based on age	Target Retirement Fund that matches the year the participant will be eligible to retire	Medium Horizon Fund, which features a diversified investment portfolio	Age appropriate Target Retirement Fund	Target Date Funds based on the participant's age at enrollment	Age appropriate Target Date portfolio
DC plan withdrawal options	Annuity, rollover, partial lump sum and annuity, deferral until age 70½	Lump sum, direct rollover, scheduled payments, personalized payment schedule, and annuity purchase	Annuity including partial lump sum lump sum, or rollover	Annuity, including partial lump sum option plan; deferral until age 70½	Lump sum payment or in installments over a 5-, 10-, 15-, or 20-year period or the EE's anticipated lifespan	Rollover, annuity, lump sum, partial lump sum, installments	Lump sum, consolidation from other plans, direct rollover to an IRA, periodic distribution	After 4-year vesting period: lump sum, partial balance, periodic distribution, direct rollover, direct rollover to an IRA	Lifetime annuity, lump-sum distribution, or distribution in installments (rolling assets into an IRA or leaving assets in the plan)	Depend on the circumstances at termination; DB/DC combo plan requires coordination between the two components with respect to termination options	Lump sum, periodic payments, minimum required distributions, or annuity; beneficiaries may use a combination of more than one payment method
Info online	www.in.gov/inprs/index.htm	http://www.drs.wa.gov (Go to "my plan 3 account")	http://www.strsoh.org	http://www.opers.org	http://www.oregon.gov/PERS	www.ers.ga.gov	https://stateofmi.ingplans.com/eportal/welcome.do	http://www.urs.org	https://www.ersri.org/public/documentation/FINAL_RIRSAGuide_January2012.pdf	http://www.varetire.org/employers/member-benefits/hybrid-plan/index.asp	http://treasury.tn.gov/tcrs/PDFs/HybridPlanSummarySheet.pdf

System	Contributions	Benefits	Eligibility	Notes
Retirement Systems of Alabama	Decreased contribution rates for new employees as follows: • general state employees and teachers, from 7.5% to 6%; • law enforcement (excluding state police) and fire, from 8.5% to 7%	For new hires: • Final average salary period of highest five years of the last 10, up from highest three years of the last 10 • Service multiplier for general employees, teachers, law enforcement officers (other than state police) and firefighters reduced from 2.0125% to 1.65%, with benefits capped at 80% of final average salary • Service multiplier for state police members reduced from 2.875% to 2.375%	Normal retirement eligibility for new (Tier II) hires: • General employees eligible to retire at age 62 with 10 years of service, up from 60/10 or any/25 • State police eligible to retire at age 56 with 10 years of service, up from 52/10 • Other law enforcement and firefighters eligible to retire at age 56 with 10 years of service, from any/25 or 60/10	Changes approved in 2012
	Raised contribution rates for current and future employees, as follows: • general state employees and teachers, from 5% to 7.5%; • firefighters, law enforcement officers and correctional officers, from 6% to 8.25% and 8.5% Employer rates will be reduced commensurate with the increase in employee rates.			Changes approved in 2011
Arizona Public Safety Personnel Retirement System	Increased employee contributions for participants in the Public Safety Personnel Retirement System (firefighters and police officers), rising gradually from current level of 7.65% to 11.65%. Also, requires employers to contribute for retirees who return to work.	Changed terms of the investment-performance-based COLA for participants in the Correctional Officers, Public Safety Personnel, and Elected Officials plans. A COLA may be paid only if the funds' total return exceeds 10.5 percent, and the amount of the COLA is linked to the plans' funding condition.		Changes approved in 2011
Arizona State Retirement System	Employee and employer contributions are matched and adjusted annually based on actuarial results; they rose on 7/1/10 from 9.0% to 9.6%; this includes the retiree health insurance benefit.	For new hires: • Change FAS from high 3 years to high 5 • Eliminate access to ER contributions for terminating participants Also,	For new hires: • Change from Rule of 80 to Rule of 85	Changes approved in 2010

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System	Contributions	Benefits	Eligibility	Notes
		• Made service purchases cost-neutral • Decreased interest rate paid on refunds • Requiring ERs to pay ASRS for early retirement incentives • Rescinded modified DROP Program		
California PERF	• Capped the amount of compensation used to calculate benefits to 100% of the Social Security contribution cap (for employees eligible for Social Security) or 120% (for employees ineligible for Social Security) • Required new members to contribute 50% of the annual Normal Cost	• Created a new defined benefit formula for non-public safety employees hired on or after 1/1/13 (2% multiplier at age 62 with a maximum benefit of 2.5% at age 67) • Created three new formulas for new public safety employees hired on or after 1/1/13 with benefit multipliers ranging from 1.5%-2.7% and retirement ages ranging from 50 to 57 • Calculates benefits based on an average of the highest three years of salary for new employees		Changes approved in 2012
	State employee contributions, which for most workers are set in labor contracts, are rising by 2% to 5% of pay for most employees, depending on bargaining unit and employee classification.	For new hires: • Increased final average salary period from one year to three • For state public safety employees, lower retirement multiplier, from 3.0% to 2.5% or 2.5% to 2.0%; and higher retirement age, from 50 to 55, depending on employee classification	For new hires: • For general state employees, higher normal retirement age, from 55 to 60	Changes approved in 2010. PERF is an agent plan with many state and local employers. The changes shown here affect state employees; other employers have also made changes to benefits and/or contributions.

Selected Approved Changes to State Public Pensions to Restore or Preserve Plan Sustainability

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System	Contributions	Benefits	Eligibility	Notes
California STRS	• Required new members to contribute 50% of the annual Normal Cost of the DB benefit • Required the contribution rate for public employers to equal at least the Normal Cost rate (less the member contribution)	For employees hired on or after 1/1/13: • Required that final compensation be calculated based on the highest average three year salary rate • Reduced the retirement factor (corresponding to retirement age) from 1.4%-2.4% (age 55-67) to 1.16%-2.4% (age 55-67)	For employees hired on or after 1/1/13: • Increased the minimum retirement age (now 55 with 5 years of service with no retirements permitted before age 55) and the normal retirement age (age 62, up from 60)	Changes approved in 2012
Colorado PERA	Employee and employer contribution rates will rise incrementally for several years. Also, the legislature approved temporary increases in contribution rates for state employees by 2.5%, for FY 2012 only, and reduced employer rates by a commensurate amount.	• Lower auto-COLA for existing retirees, to lesser of CPI-W or 2.0% • Require future retirees to be retired for 1 year before receiving a COLA • 5-year service credit required on 50% employer match on contribution refunds, effective 1/1/11		Changes approved in 2010 and 2011.
Delaware PERS	Increased employee contribution rates from 3% to 5% on salaries above $6,000, effective 1/1/12.	• Excluded overtime from final average salary calculation • Increased the actuarial reduction for early retirement to 4/10 of one percent of each month the employee is retired before the age of 60	For new hires as of 1/1/12: • 10-year vesting period, from 5 • Raised normal retirement eligibility to 65 years of age with 10 years of service, 60/20, or any/30, up from 62/5, 60/15, or any/30	Changes approved in 2011.
Florida Retirement System	FRS, which previously was a non-contributory plan, began requiring participants to contribute 3% of pay beginning 7/1/11.	For new hires as of 7/1/11: • 8-year final average salary period, from 5 • Also, eliminates COLA for all service earned after 6/30/11.	For new hires as of 7/1/11: • 8-year vesting period, from 6 Raised normal retirement age, from 62 to 65, and 55 to 60 for public safety workers	Changes approved in 2011. FRS participants maintain option to select a DB or DC plan as their primary retirement benefit.

System	Contributions	Benefits	Eligibility	Notes
Georgia ERS		For new hires after 12/31/08, established new hybrid plan featuring a DB component with a 1.0% multiplier and an optional DC component with an employer match. The previous plan provided a multiplier of 2.0%.		Changes approved in 2008.
Hawaii ERS	Increased EE contribution rates for those hired after 6/30/12, as follows: general EEs and teachers, from 7.8% to 9.8%, and public safety personnel, from 12.2% to 14.2%. Higher ER rates will be phased in over several years, from 15% to 17% for general EEs and 19.7% to 25% for public safety.	For new hires after 6/30/12: • Final average salary calculated from the highest 5 years (up from highest 3) • Retirement multiplier reduced from 2 percent to 1.75 percent • COLA reduced from 2.5% to 1.5%	For new hires after 6/30/12: • Normal retirement at age changed to 60 with 10 years of service or at age 55 with 25 years of service. Police and firefighters eligible to retire after 25 years of service • Vesting period increased from 5 to 10 years	Changes approved in 2011
Illinois statewide plans (except judges and legislators)	Beginning July 1, 2014 all state employee and teacher contribution rates are decreased by 1%. A defined contribution plan was created as an option for up to 5%, each of Tier I SERS, TRS, and SURS active members. Members currently enrolled in the DC plan contribute 8.4%.	• Tier II salary cap ($110,631 for 2014) extended to apply to all Tier I members as well Changes to COLA calculation and distribution for current state employees and teachers • Beginning January 2015 the COLA calculation is changed to allow for a maximum COLA of the retiree's years of service multiplied by $1,000 (for non-Social Security covered service) or $800 (for Social Security covered service). The maximum COLA is indexed each year to CPI. Those with an annuity less than the maximum COLA will receive a 3% compounded COLA each year until their annuity reaches the maximum COLA amount. • Employees who retire on or after July	Increased the age for normal retirement eligibility for some current state employees and teachers age 45 and younger as of June 1, 2014. For each year under 45 the age increases by 4 months, up to a maximum of 5 years for employees under 32 years of age as of that date. There is no increase for employees age 46 and over.	Changes approved in 2013

System	Contributions	Benefits	Eligibility	Notes
		1, 2014 will have annual COLAs skipped depending on their age, up to a maximum of 5 (nonconsecutive) years for employees under 32 years of age as of that date.		
		For new hires as of 1/1/11: • FAS basis is now highest 8 of last 10 years, up from final 4 • Limits pension benefit to 75% of FAS or $106,800, indexed to the lesser of 3% or half of CPI • COLAs will be lesser of 3% or half of CPI, non-compounded, from current auto 3% compounded • COLAs begin at age 67	For new hires as of 1/1/11: • Normal retirement age increases to 67, from 60 • Minimum retirement age of 62	Changes approved in 2010. Suspends pension benefits for those who return-to-work for another public employer in the state.
Iowa PERS	Contribution rates will rise incrementally, from 4.7% to 5.3% for EEs and 7.25% to 8.15% for ERs. Thereafter, the board has authority to adjust the total rate by up to 1%.	For all active members on or after 7/1/12: • Increased FAS period from 3 years to 5 • Implemented a 6% per year reduction in retirement benefits for each year a member receives a retirement allowance before age 65. The reduction applies only to service earned after July 1, 2012.	• Vesting period for those not vested (currently 4 years) on 7/1/12 will increase to 7 years.	Changes approved in 2010.
Kansas PERS	New hires as of 1/1/15 will participate in a new cash balance plan. Employees will contribute 6% and employers will contribute pay credits that grow with increasing employee service length.	New hires as of 1/1/15 will participate in a new cash balance plan. Accounts will grow at an annual rate of 5.25% which may be higher if investment returns permit.		Changes approved in 2012.
	Cap on permissible annual increase in employer rates will rise from 0.6% to 1.2% by 2017. Participants hired before 1/1/09 may choose to keep the 4% contribution rate with a lower future benefit accrual, or opt for 6% rate and keep the same benefit accrual rate.	Those hired after 12/31/08 may choose to retain their 1.75% multiplier and forfeit accrual of their COLA (for all service), or to retain their COLA and reduce future accrual rate from 1.75% to 1.4%. All changes would become effective in 2014.		Changes approved in 2011. The law also states that 80% of proceeds from real estate property sales will be used to pay down KPERS' UAAL.

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System	Contributions	Benefits	Eligibility	Notes
Kentucky RS		Created a cash balance plan for members hired after 1/1/14. Employee accounts guarantee 4% annual return and 75% of returns above 4%		Changes approved in 2013
Kentucky TRS		Established graduated retirement factor schedule that is lower for those who accrue less than 30 years of service, beginning with 1.7% for 10 years and less	For new hires after 6/30/08: • Increased normal retirement eligibility from 55/5 to 55/10; retained 60/27	Changes were approved in 2008.
Louisiana SERS		Increased FAS period from 3 years to 5		Changes were approved in 2010.
Maine PERS		• The retiree COLA will be frozen for 3 years then based on CPI up to 3%. Retirees will receive a COLA only on their first $20,000 of benefits, indexed each year by the CPI. • State employees or teachers who are 1) normal retirement age; 2) retire after 7/11, and, 3) return to work in a position covered by the State/Teacher plan may work no more than 5 years and only at a salary not more than 75% of that established for the position.	Increased age when most new hires and those with less than 5 years of service on 7/1/11 are eligible to retire, from 62 to 65. Members may be able to purchase other types of service to remain in the Age 62 plan.	Changes approved June 2011.
Maryland State Retirement and Pension System	For existing state workers and teachers not yet paying 7%, raised contribution rate to that level. Establishes 7% employee contribution rate for all new hires as of 7/1/11.	For new state workers and teachers as of 7/1/11: • Increased FAS period from 3 years to 5 Also, approved changes to DROP and other benefit provisions affecting state and local police and corrections officers.	For new state workers and teachers as of 7/1/11: • Increased vesting period from 5 years to 10 • Normal retirement eligibility at Rule of 90 or 65/10. For existing state workers, teachers and new hires as of 7/1/11, reduced auto-COLA to CPI up to 2.5% when assumed investment return is achieved; 1% when it's not. • Early retirement eligibility at age 60 or 15 years of service	Changes were approved in 2011.

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System	Contributions	Benefits	Eligibility	Notes
Massachusetts teachers, state, and local		For teachers and employees of the state and political subdivisions hired after March 2012, not including public safety officers: • Reduced retirement multipliers • Increased final average salary period from 3 years to 5 • Made changes reducing benefits for newly-hired public safety officers	For teachers and employees of the state and political subdivisions hired after March 2012, not including public safety officers: • Increased minimum retirement age from 55 to 60	Changes were approved in 2011
Michigan Public School ERS	New hires on or after 7/1/10 participate in a hybrid plan featuring higher EE contributions to the DB plan and mandatory participation in the DC plan.	New school system hires have a hybrid plan instead of the current DB plan. Hybrid plan features the same multiplier as the legacy DB plan, but requires higher EE contributions and mandatory participation in DC plan.		Changes approved in 2010.
	Employees hired between 1990-2010 must elect to either pay increased contributions, receive reduced benefits, or move to a defined contribution plan: • Contribution rates increased from either 0% to 4% or from 3-6.4% to 7% depending on what plan they are in. Employees electing to increase contributions will keep current pension multipliers	Employees hired between 1990-2010 must elect to either pay increased contributions, receive reduced benefits, or move to a defined contribution plan: • If an employee elects to maintain current contribution rates existing benefits are frozen at the 1.5% multiplier and accrue at 1.25% for future years of service • Employees may elect to move into a defined contribution plan with a flat 4% employer contribution rate for future service For employees hired after 9/26/12: • Employees have the option of choosing between the existing DB/DC hybrid plan and a defined contribution plan		Changes approved in 2012

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System	Contributions	Benefits	Eligibility	Notes
Minnesota PERA	Employer contribution rates increased from 7.0% to 7.25% and employee contributions increased from 6.0% to 6.25%, on 1/1/11.	• Reduction in COLA for existing retirees from 2.5% to 1.0%, until funding ratio=90% • Reduction in interest paid on inactive and terminating accounts.	Increase in vesting period, from 3 years to 5	Changes approved in 2010.
Minnesota SRS		• Reduction in COLA for existing retirees from 2.5% to 2.0%, until funding ratio=90% • Reduction in interest paid on inactive and terminating accounts. • Increase in vesting period, from 3 years to 5		Extended amortization period from 2020 to 2040. Changes approved in 2010.
Minnesota Teachers	Employer and employee contributions will rise by 0.5% each year, from 5.5% each to 7.5%, phased over 4 years. After the phase-in, the TRA board has authority to adjust future rates (within limits) should the system have a contribution deficiency or sufficiency.	• For existing retirees, 2-yr suspension of COLA followed by permanent reduction in COLA from 2.5% to 2.0%, until funding ratio=90% • Reduction in interest paid on inactive and terminating accounts.		Changes approved in 2010.
Mississippi PERS	Raised contribution rates for all employees, from 7.25% to 9%.	For new hires after 7/1/11: • Effective 7/1/11, ERs will be required to pay contributions on any re-employed retiree, and a 90-day break in service will be required (up from 45, with an emergency provision). • Increased age when COLA begins compounding, from 55 to 60.	For new hires after 7/1/11: • Retirement eligibility increased from 25 to 30 years, regardless of age. • Unreduced benefits available at age 65 to those who have at least 8 but less than 30 years of service. • Reduced benefits available to those at age 60 with at least 8 but less than 30 years of service.	Changes approved in 2010 and 2011.

System	Contributions	Benefits	Eligibility	Notes
Missouri State ERS	New hires as of 1/1/11 are required to contribute 4% of pay. Plan is non-contributory for those hired before.		For new hires as of 1/1/11: • 10-year vesting (from 5) • Normal retirement at age 67 or Rule of 90 at age 55 (from 62 or Rule of 80, min age 48) • Early retirement eligibility at age 62/10 (from 57/5)	Changes were approved in 2010.
Missouri Highway Patrol & DOT RS	New hires as of 1/1/11, excluding uniformed patrol employees, are required to contribute 4% of pay. Plan is non-contributory for those hired before.		For new hires as of 1/1/11, excluding uniformed state employees: • 10-year vesting (from 5) • Normal retirement at age 67 or Rule of 90 at age 55 (from 62 or Rule of 80, minimum age 48) • Early retirement at age 62 with 10 years of service (from 57/5); excludes uniformed state employees	Changes were approved in 2010.
Montana PERA	All PERS members will contribute 7.9% (an increase of 1% for members hired prior to 7/1/11)	Cost-of-living adjustment reduced to 1.5% for all current and future retirees as long as the system is funded at 90%. COLA is reduced 0.1% for each 2% below a 90% funding level. If amortization period is 40 years or greater, the COLA is 0%.		Changes approved in 2013
	Contributions for employees hired after 7/1/11 increased from 6.9% to 7.9%	For new hires after 6/30/11: • Highest average compensation calculated based on 60 months (up from 36) • Calculation for retirement multiplier changed according to length of membership service.	For new hires after 6/30/11: • Normal retirement eligibility at 65 with five years of service, or age 70	Changes were approved in 2011.
Montana TRS	For current TRS members • Adds a 1% supplemental contribution to the existing 7.15% rate, for an aggregate	For current and future TRS members • COLA reduced to 0.5% if the plan is less than 90% funded; if 90% funded or	For TRS members hired on or after 7/1/13 • Normal retirement at age 60	Changes approved in 2013

System	Contributions	Benefits	Eligibility	Notes
	rate of 8.15% For TRS members hired on or after 7/1/13 • Increases contribution rate to 8.15% with triggers for supplemental increases up to 1% if necessary	above (and COLA provision would not cause plan to fall below 85% funded), COLA to be granted at an amount not to exceed 1.5% For TRS members hired on or after 7/1/13 • AFC based on 5 years instead of 3 years • Increases multiplier to 2% for members age 60 and older with at least 30 full years of service	with 5 full years or age 55 with 30 or more years of service • Early retirement at age 55 with 5 years of service	
Nebraska PERS	Rates for teachers and other school employees will rise from 8.28% to 9.78%, phased in over 2 years beginning 9/1/11. Rates are scheduled to return to 7.28% in 2017. The state contribution of 1%, up from 0.7%, to teacher plans is extended to 2017. Also, state patrol employee and employer rates are increased from 16% to 19% for a 2-year period beginning 7/1/11.			Changes were approved in 2011.
Nebraska Schools		For new hires as of 1/1/10: • Increased period used to calculate FAS from 3 years to 5 years • Maximum COLA reduced from 2.5% to 1%		Changes approved by legislature in 2013; Legislature overrode executive veto
Nevada PERS		For new hires as of 1/1/10: • Benefit formula calculated using a 2.5% multiplier (service between 6/30/01 and 12/31/09 was calculated using a 2.67% multiplier). • Limited definition of reportable compensation (anti-spiking provision) • Reduced COLA ceiling from 5% annual increase on the 14th anniversary of retirement to 4% annual increase on the 12th anniversary of retirement	For new hires as of 1/1/10: • Retirement eligibility increased to 62/10 from 60/10. For police and firefighters eligibility increased to 30 years of service at any age from 25	Changes were approved in 2009.

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System	Contributions	Benefits	Eligibility	Notes
New Hampshire Retirement System	Rates for general employees and teachers will rise from 5% to 7%; for police, from 9.3% to 11.55%; and firefighters, from 9.3% to 11.8%.		For new hires as of 7/1/11, normal retirement eligibility for firefighters and police will change from age 45 with 20 years of service to age 50 with 25 years of service.	Changes were approved in June 2011. Also placed limits on return-to-work.
New Jersey Division of Pension and Benefits	For general employees and teachers, raises employee contribution rates from 5.5% to 6.5%, then phases in to 7.5% over 7 years. For public safety officers, increases employee rate from 8.5% to 10.0%. The state police rate will rise from 7.5% to 9.0%.	Future COLAs are suspended for all existing and future retirees until plans reach a funding level of 80%. • 3% reduction in benefit for each year an employee is retired before the age of 65	For new hires after 6/29/11, a new tier is established with a retirement age of 65. Early retirement eligibility at any age with 30 years of service.	Changes approved in 2011.
		For new state employees and teachers, the pension multiplier is reduced from 1/55 to 1/60 and the FAS period is increased from 3 years to 5 years. For new public safety members the FAS period is increased from 1 year to 3 years.		Changes approved in 2010
New Mexico Educational Retirement Board	Increased employee contributions from 9.4% to 10.1% in FY14 (10.7% in FY15 and thereafter). Employees earning less than $20,000 will contribute 7.9%.	For employees hired on or after 7/1/2013 • Delayed COLA until age 67 For current employees and retirees • Reduced current retirees' COLA to an average of 1.8% for retirees' with 25 years of service and an average of 1.6% for all others. These reductions will be in place until ERB is 90% funded, at which point reduced COLAs will equal 1.9% for retirees' with 25 years of service and 1.8% for all others. Once ERB is 100% funded COLA reductions will cease.	For employees hired on or after 7/1/2013 • Established a minimum retirement age of 55	Changes approved in 2013
	For EEs earning $20k and more, increased EE contribution rate by 1.5% and reduced ER rate by same amount.		For new hires after 6/30/09: • Increased normal retirement eligibility from any age w/25 years of service to any/30, from	Changes approved in 2009.

System	Contributions	Benefits	Eligibility	Notes
			Rule of 75 to Rule of 80, and 65/5 to 67/5	
New Mexico PERA	Increased contributions by 1.5% for all employees, except those earning $20,000 or less annually	For newly hired general employees: • Increased period used to calculate FAS from three years to five For newly hired public safety members • Instituted a 7-year COLA eligibility (waiting) period upon retirement • Increased period used to calculate FAS from three years to five For current retirees • Reduced COLAs from 3% to 2% compounding for retirees (retirees earning $20,000 or less will receive a COLA of 2.5%)	For newly hired general employee members: • Increased vesting period from five years to eight • Increased retirement eligibility to Rule of 85 For newly hired public safety members • Increased vesting period from five years to six	Changes approved in 2013
	Increased EE contribution rate by 1.5% and reduced ER rate by same amount.		For new hires after 6/30/10: Increased normal retirement eligibility from any age w/25 years of service to any/30. Retained retirement eligibility of Rule of 80 and 67/5	Changes approved in 2009.
New York State & Local RS	New hires as of 4/1/12 must contribute based on a sliding salary scale, beginning at 3%, up to 6%	For new hires as of 4/1/12: • Final average salary period increased from three years to five years • Early retirement penalty of 6.5% for each year of retirement prior to age 63	For new hires as of 4/1/12: • Normal retirement age rises to 63 from 62	Changes approved in 2012
	Most new hires as of 1/1/10 must now make contributions of 3% their entire career, instead of only first 10 yrs.	For new hires as of 1/1/10: • Limit on use of OT in benefit calculation	For new hires as of 1/1/10: • 10-year vesting, from 5	Changes approved in 2009 and 2011. 2011 changes also included anti-spiking provisions.
New York State TRS	New hires as of 4/1/12 must contribute based on a sliding salary scale, beginning at 3%, up to 6%	For new hires as of 4/1/12: • Final average salary period increased from 3 years to 5. FAS calculation amended to exclude wages exceeding	For new teachers and state & local employees as of 4/1/12: • Eligibility for normal retirement increased to age 63 with 10	Changes approved in 2012

System	Contributions	Benefits	Eligibility	Notes
		the average of the previous four years by more than 10 percent. Salary eligible for FAS calculation capped at $179,000. • Pension multiplier adjusted to 1.75% for the first 20 years of service and 2% for each year after 20; Any employee who works 30 years receives 55% of FAS (as opposed to 60% under Tier V) • Benefits reduced by 6.5% for each year retired between age 55 and 63	years of service, up from 62/10 • Vesting period increased to 10 years (for teachers and ERS, no change from Tier V)	
	New hires must now make contributions of 3.5% their entire career, instead of only first 10 years	For new hires as of 1/1/10: • Multiplier of 2.0% after 25 years of service, up from 20 • Limits use of OT in benefit calculation	For new hires as of 1/1/10: • 10-year vesting, from 5 • Normal retirement at 57 with 30 years of service, from age 55	Changes approved in 2009. Changes approved in 2009 and 2011. 2011 changes also included anti-spiking provisions.
North Carolina Retirement Systems		Increased vesting period from 5 years to 10 for all new hires after 7/31/11.		Change approved in 2011.
North Dakota PERS	Increased employee and employer rates by 2% over 2 years beginning 1/1/12. EE rates will rise to 6% and ER rates will reach 6.12%.			Changes were approved in 2011.
North Dakota Teachers	Increased employee rates from 7.75% to 11.75%, in 2 increments of 2% each, effective 7/1/12 and 7/1/14. Raised employer rates from 8.75% to 12.75%. EE and ER rates will return to 7.75% when funding level is 90%.			Changes were approved in 2011.
Ohio PERS		• Members eligible to retire in 10 years or with 20 years of service will be eligible to retire at 1) 32 years of service; 2) 52/31 (age/years of service) or 3); 66/5 • All other members are eligible for full retirement at 55/32 or 67/5 • Law enforcement officers retiring in the	• Eligibility for normal retirement for current employees eligible to retire after 1/7/18 but on or before 1/7/23 set at any age with 32 years of service, 52/31, or 66/5 • Eligibility for normal retirement	Changes approved in September 2012

System	Contributions	Benefits	Eligibility	Notes
		next 5 years are eligible at age 48; all others are eligible at age 50 or 52 • Employees eligible to retire in 10 years or with 20 years of service see no change in benefit formula. All other employees will receive benefits based on a final average salary of the highest 5 years (up from 3 years) • Those set to retire in the next 5-10 years see no changes in benefit calculations. Others will receive 2.2% of FAS for each year of service up to 35 (up from 30). For each year of service above 35 2.5% becomes the multiplier	for new employees and current employees eligible to retire after 1/7/23 set at age 55 with 32 years of service or 67/5 • Eligibility for reduced retirement for current employees eligible to retire after 1/7/18 but on or before 1/7/23 set at age 60 with 5 or more years of service or 55/25	
Ohio State Teachers	Contribution rates will increase from 10% to 14% over the next four years	• After 8/1/15 benefits will be calculated for all members using the average of the highest 5 years of salary (up from 3 years) • Members who retire before 7/1/13 will not receive a COLA during the 2014 fiscal year; members who retire effective 7/1/13 will not receive a COLA on 7//1/14. After missing one COLA, retirees will resume COLA at 2% per year • Members who retire after 7/1/13 will receive a 2% COLA beginning on the fifth anniversary of retirement	• Changes to retirement eligibility will be phased in through 8/1/26, at which time age 60 and 35 years of service will be required for normal retirement eligibility	Changes approved in September 2012
Ohio School Employees			For employees with less than 25 years of service as of 8/1/17 eligibility to retire with full benefits is increased to 67/10 or 57/30 (age/years of service)	Changes approved in September 2012

System	Contributions	Benefits	Eligibility	Notes
Ohio Police & Fire	Contribution rates will rise incrementally over three years from 10% to 12.25% of salary	• For employees with less than 15 years of service as of 7/2/13 average annual salary will be based on an average of the highest 5 years of salary (up from highest 3 years) • For new members and members with < 15 years of service COLA is changed from 3% to the lesser of 3% or the CPI. COLA is delayed until age 55 for all members except survivors and permanent disabilitants.	• New employees are eligible to retire at 52/25 (age/years of service) up from 48/25	Changes approved in September 2012
Oklahoma PERS		For new members hired on or after July 1, 2013 • Period used to calculate final average salary increased to five years, from three years		Changes approved in 2013.
Oklahoma statewide plans		Require that future COLAs be funded by the Legislature, effective April 25, 2011.		Changes approved in 2011. Required COLA provision is estimated to reduce PERS and TRS unfunded liabilities by ~30%
Oregon Public Employees Retirement System		Lowered the maximum cost-of-living adjustment for retirees: • COLA limited to 1.25% on the first $60,000 in benefits; 0.15% on amounts above $60,000 • Retirees to receive one-time, supplemental payments for six years of 0.25% of their benefit; retirees earning < $20,000 will receive a second supplemental payment of 0.25% of their benefit • Supplemental payments are in effect for six years and are not compounding		Changes approved in 2013

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Pennsylvania Public Schools ERS	For new hires as of 7/1/11, reform bill establishes a "shared-risk" provision that could result in higher future employee contribution rates, depending on fund investment performance, and creates a floor for employee rates at their present levels. Also, creates cap on amount employer rates may increase in any year.	For new hires as of 7/1/11: • Reduced retirement multiplier, from 2.5% to 2.0% • Permits option to retain 2.5% multiplier with employee contribution rate of 10.3%, rather than 7.5% current rate.	For new hires as of 7/1/11: • 10-year vesting, up from 5-year • Replaces retirement provision of any age with 65 years of age and 3 years of service (from 60/30, 62/3 or any/35); or 35 years of svc with Rule of 92, i.e., age and years of service must total 92	Increases asset smoothing period from five years to 10 and increases amortization period to 24 years. Changes were approved in 2010. Reform bill prohibits future use of pension obligation bonds to pay down unfunded pension liabilities.
Pennsylvania State ERS	For new hires as of 1/1/11, reform bill establishes a "shared-risk" provision that could result in higher future employee contribution rates, depending on fund investment performance, and creates a floor for employee rates at their present levels. Also, creates cap on amount that employer rates may increase in any year.	For new hires as of 1/1/11: • Reduced retirement multiplier, from 2.5% to 2.0% • Permits option to retain 2.5% multiplier with employee contribution rate of 9.3%, rather than 6.25% current rate • Prohibits payment of lump-sum withdrawals with interest for those eligible for an annuity.	For new hires as of 1/1/11: • 10-year vesting, up from 5-year • Raises normal retirement age to 65 from 60, and to 55 from 50, depending on class • Replaces retirement provision of any age w/ 35 years of svc with Rule of 92, i.e., age and years of service must total 92	Restarts amortization period to 30 years. Changes were approved in 2010. Reform bill prohibits future use of pension obligation bonds to pay down unfunded pension liabilities.
Puerto Rico Government Employees	Increased employee contributions from 8.275% to 10%	Created a hybrid plan for new and active members (effective July 1, 2013)	Increased the retirement age to 67 and 58 for new general employees and public safety employees, respectively (applies to those hired after July 1, 2013)	Changes approved in 2013
Rhode Island	As part of new hybrid plan for most current participants, employee contributions will be split between the DB and DC components.	New hybrid effective 7/1/12 for current active members features a retirement multiplier of 1.0% with 5% employee contributions and 1% employer made to a DC plan. For teachers without Social Security, an additional 2% employee and 2% employer contribution.	Early retirement at 62/20	Reduced investment return assumption from 8.25% to 7.50%, with commensurate reduction in inflation assumption to 2.75%.

System	Contributions	Benefits	Eligibility	Notes
		Also, revoked automatic COLA up to 3%, in lieu of risk-adjusted COLA targeting 2%, calculated as a 5-year smoothed investment return less 5.50% with a 0% floor and 4% cap, applied to first $25,000 of benefit, indexed. COLA delayed until later of SS NRA or 3 years after retirement. COLA suspended until system is 80% funded.		Changes approved in 2011.
		Modified COLA adjustment to apply only to the first $35,000 of benefits, starting on the 3rd anniversary of retirement or at age 65		Changes approved in 2010
		Increased final average salary period from 3 years to 5 years for state employees and teachers not eligible to retire as of 9/30/09	Increased retirement age from 59 to 62 for state employees and teachers not eligible to retire as of 9/30/09	Changes approved in 2009
South Carolina Retirement System	Increased contribution rates for current members and new hires (general employee and police) from 6.5% to 8% in 0.5% increments from 7/1/12 to 7/1/14	Average final compensation for new general and Police Officer members increased from highest 3 years of earned compensation to highest 5 years	• Retirement eligibility for new hires (general employee) set at age 65 with 8 years of service or Rule of 90 (or age 60 with a 5 point reduction for each year of age retired before 65) • Retirement eligibility for police officers set at age 55/27 years of service • Vesting requirement for new general and Police Officer members increased from 5 years to 8 years • Eliminated early retirement at 55/25	Changes approved in 2012

System	Contributions	Benefits	Eligibility	Notes
South Dakota RS	Reduced refunds of ER contributions	Eliminated first-year pro-rated COLAs. For the following years, new COLA format, affecting existing retirees, based on plan funding level, as follows: • If the ratio is 100% or more, the COLA remains at 3.1% • If the ratio is 90% to 99.9% the COLA will be indexed to CPI with a maximum of 2.8% and a minimum of 2.1% • If the ratio is 80% to 89.9% the COLA will be indexed to CPI with a maximum of 2.4% and a minimum of 2.1% • If the ratio is less than 80% the COLA will be 2.1%		Changes were approved in 2010. New limits on return-to-work
Tennessee Consolidated Retirement System	Created a hybrid plan for new state, higher education employees, and teachers hired after 7/1/14 which requires contributions of 5% to the DB plan; 2% to the DC plan.	Created hybrid (combo DB/DC) plan for new state, higher education employees, and teachers hired after July 1, 2014. The new hybrid plan is optional for local government entities. • Defined benefit multiplier of 1% • Immediate vesting in DC plan; 5 years required to vest in DB plan		Changes approved in 2013
Texas ERS	Increases contributions for ERS members from 6.5% gradually over the next four years • FY14: 6.6% • FY15: 6.9% • FY16: 7.2% • FY17: 7.5%	For new hires as of 9/1/13: • Benefit based on highest 60 months of compensation, rather than current 48 or 36-month calculations • Sick and annual leave are eliminated from calculations for retirement eligibility	For new hires as of 9/1/13: • Minimum age to retire without a 5% annual reduction set at 62 (general employees) or 57 (law enforcement)	Changed approved in 2013
			For new hires, retirement eligibility increases to age 65 with 10 years of service, from 60/5.	Changes were approved in 2009.

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System	Contributions	Benefits	Eligibility	Notes
Texas TRS	Increases contributions for TRS members from 6.4% gradually over the next four years • FY14: 6.4% • FY15: 6.7% • FY16: 7.2% • FY17: 7.7%			Changes approved in 2013
Utah RS	Closed the defined benefit plans of the URS and replaced them with a defined contribution plan and a hybrid plan. New employees hired on or after July 1, 2011 may choose to join either plan (the hybrid plan is the default option). Employers will fund the first 10% of the DC or hybrid plan. The difference between the cost of the hybrid plan and 10% is deposited into employee's DC account. If the cost of the hybrid exceeds 10%, employees will contribute the difference.	New hires as of 7/1/11 will have their choice of DC or a hybrid plan with a 1.5% multiplier and an annual COLA of CPI to an annual maximum of 2.5%.	Eligibility for the DB benefit in the hybrid plan set at age 65 with 4 years of service, 60/20, 62/10, or any/35. An actuarial reduction applies to those who retire between age 60 and 65, unless they have 35 years of service.	Changes were approved in 2010. Employer liabilities for new hires as of 7/1/11 are effectively capped at 10% of pay.
Vermont SERS	Raised contribution rates for current employees from 5% to 6.3% from 7/1/11 through 6/30/16 (rates lowered to 5% if 100% funding is achieved before 6/30/16).			Changes approved in 2011
Vermont TRS	Raises contributions for current employees from 3.54% to 5.0%.	For current teachers 5 years or more from normal retirement eligibility: • increases max benefit to 60% of FAS, from 50% • increases multiplier for those w/20 years of service, to 2.0 from 1.67 Changed reduction for early retirement from a percentage reduction to an actuarial reduction. Employees selecting early retirement receive 60% of AFC if they are more than 5 years from normal retirement eligibility or 53.34% of AFC if they are within 5 years of normal	For current teachers 5 years or more from normal retirement eligibility: • raises normal retirement to 65 or Rule of 90, from 62 or any/30	Changes were approved in 2010. Also increases limits on maximum permissible benefit and includes anti-spiking provision.

System	Contributions	Benefits	Eligibility	Notes
		retirement eligibility		
Virginia RS	For new hires as of 1/1/14: New hybrid plan requiring contributions of 5%; 4% to the DB component of a new hybrid plan and a minimum of 1% to the DC component. EEs may contribute up to 5% to the DC component, which would be matched at 3.5% by the employer.	For new hires as of 1/1/14: • New hybrid plan featuring a DB plan with a multiplier of 1.0% and mandatory participation in a DC plan. For members not vested as of 1/1/13 (*excluding* public safety): • Lower retirement multiplier for from 1.70% to 1.65% • Normal retirement age tied to Social Security retirement age, from 65, or Rule of 90 (age and service) For members not vested as of 1/1/13 (*including* public safety): • Final average salary period of 5 years, from 3 For all non-vested members (excluding those within 5 years of eligibility for early retirement): Lower COLA, from auto based on CPI up to 5% to auto based on 1st 2% of CPI plus half of next 2% of CPI, for total not to exceed 3%. Also, delayed COLA until age 65 for those who retire with less than 20 years of service		Changes approved in 2012
	For new employees: • Employees are required to contribute 5% of compensation to fund their benefits. Contributions had been previously picked up by employers (under the new law only local employers will be allowed to pick up contributions. This requirement was extended to all state employees in 2011.	For new employees: • Increased the number of months used to calculate final average salary from 36 to 60 • Increased the cost, and decreased the time in which employees may purchase prior service credit • Reduced the portion of the CPI used to determine annual COLA increases from 3% plus one-half of the next 4% to 2%	Eligibility for normal retirement for new state and local employees changed from Rule of 80 to Rule of 90 Eligibility for reduced retirement permitted to those age 60 with at least 5 years of service	Statutorily committed the General Assembly and governor to gradually adopt the same method of calculating retirement rates for teachers and state employees as the VRS Board of Trustees. Currently, the state's rates represent about 70

System	Contributions	Benefits	Eligibility	Notes
		plus one-half of the next 8%		percent of the certified rates; by 2018-2020, the state would have to fully fund the VRS rates. Changes approved in 2010.
Wyoming RS	Raised contribution rates for employers and employees, and required that employees pay the additional amount of 1.43%.	For new hires as of 8/31/12: • Reduced retirement multiplier to 2.0%, from 2.125% for first 15 years of service and 2.25% for years thereafter • Increased final average salary period from highest 3 years of continuous service to highest 5 The legislature also passed a resolution expressing its intent that no COLA be paid until the system is fully funded with an expectation that it remain so given expected market volatility.	For new hires as of 8/31/12: • Raised normal retirement eligibility from age 60 with 4 years of service to 65/4 For new hires as of 8/31/12, raised early retirement eligibility from age 50 and 4 years of service or any age with 25 years of service, to 55/4 or 50/25. Authorized the WRS board to establish an actuarial reduction for early retirement.	Changes to contribution rates were approved in 2010; other changes were approved in 2011.

Flaws of adopting cost cutting in switching to DC plans

By Diane Oakley | January 20, 2014

Thinking back to 2007 — before the financial crisis — public pension plans in the aggregate had nearly 90% of the assets on hand required to pay retirement benefits due decades in the future. However, like all investors, public pension funds took a deep hit when the financial markets melted down in 2008. With markets in a downward freefall, pension assets plummeted, unfunded liabilities grew and pressure mounted on state policymakers to enact reforms. Even states with well-funded plans were prudent to closely examine their retirement systems, while policymakers in states that had fallen behind on their contributions prior to the Wall Street crisis faced tough decisions.

Since that time, 48 states have enacted reforms to their pension plans. The overwhelming majority of states acted to ensure the sustainability of their traditional pension structures by adjusting benefits and increasing employee and employer contributions. Specifically, the states enacted one or more reforms: 40 states reduced future pension benefits; 30 states required employees to increase their contributions; 21 states reduced cost-of-living adjustments for retirees; and 11 states statutorily increased the employers' pension contributions.

Now, public pension systems appear poised to emerge stronger than before the financial crisis thanks in large part to state policymakers' resistance to calls for extreme measures, while undertaking prudent state reforms and enjoying economic recovery. Indeed, a recent analysis by the Boston College Center for Retirement Research finds that such substantial reforms have put states on track to closing funding gaps, and many states might eventually reduce their pension costs to levels below what plans paid before 2008.

Although the environment back in 2008 appeared fertile for a wholesale switch to individual defined contribution accounts from defined benefit pensions, it never happened. That begs the question — why did policymakers stick with their defined benefit plans in the face of financial pressure and the corporate trend away from them?

One explanation is that the move away from defined benefit plans in the private sector is rooted in federal regulations that aren't applicable to public systems. These rules create sizable funding volatility and unpredictability for corporate plan sponsors.

Another explanation is that state policymakers heeded the data in actuarial analyses that indicated closing public pensions would not address funding shortfalls. Take for example the experience of West Virginia's pension reform in the 1990s, which now is a cautionary tale for policymakers. West Virginia learned the hard way that a switch to defined contribution accounts from defined benefit plans does nothing to close unfunded pension liabilities, and can leave employees unable to retire.

Here's what happened. To address historical underfunding of the West Virginia Teachers' Retirement System, the state closed the TRS and moved teachers hired after 1991 to 401(k)-type defined contribution accounts. More than a decade later, both the DB plan and the new DC plan faced challenges. The TRS DB plan was less than 20% funded, while teachers with DC accounts found their balances inadequate. Since West Virginia wisely reinstated its pension plan, the TRS DB finances have improved significantly and teachers are better positioned to retire.

While teachers made their required contributions to the TRS DB plan out of every paycheck, until 1991 state policymakers operated the system on an expensive a pay-as-you-go model that built up a significant unfunded liability. West Virginia adopted an actuarially based plan to reach full funding for the liability in the closed pension plan in 1994. But with the plan closed, demographics shifted quickly. By 2005, TRS paid pension benefits to nearly two retired teachers for every active teacher still contributing to TRS. When combined with funding percentage levels in the low 20s, this was a major concern.

Meanwhile, all new teachers made their mandatory 4.5% of pay contribution to the DC plan and employers contributed 7.5% of salary. However, the teachers' investment decisions were conservative and generated lower investment returns. As a consequence, teachers approaching retirement under the DC plan on average had less than $25,000 in their accounts and could not afford to retire, according to a 2005 study.

With these poor results, lawmakers cut their losses in 2005. They closed the 401(k) plan and reopened the pension plan to new teachers. This generated an immediate savings for the state because the “normal cost” for TRS was roughly half of the required employer contribution to the 401(k) plan.

On the demographic front, nearly 36,000 active teachers make the 6% contribution to the DB plan and about 32,000 retirees receive a monthly pension check. Now more sharply focused on the state''s 2034 pension full-funding deadline, West Virginia demonstrated its renewed commitment to catch up on past pension funding payments by using $807 million from its tobacco settlement fund to shore up the TRS plan.

Today, the West Virginia TRS pension plan continues to improve. The system's financial statement as of July 1 reported funding was at 58% of liabilities. That means that in the eight years since reopening the TRS pension, the state narrowed by half what historically was a sizable pension funding gap.

Other states have watched and learned from the West Virginia experience. Ultimately, kicking transition costs and unfunded liabilities down the road can have dire consequence for employees, employers and taxpayers. States have chosen to keep their DB pension model and are taking positive steps to fund their promises rather than embracing theories that there is no cost to switching to a DC plan from a DB plan.

401(k)-style KPERS bill resurfaces

Posted: January 27, 2014,
By Andy Marso, andy.marso@cjonline.com

A House member is drafting another bill moving new state hires to a 401(k)-style direct contribution retirement plan rather than the traditional pension system, after such proposals failed to gain traction in each of the last two sessions.

Rep. John Rubin, R-Shawnee, told the House Pensions and Benefits Committee on Monday he is working on such a bill, while also noting that it wouldn’t apply to current state employees and certain groups of public workers.

“This proposed D.C. plan does not apply to law enforcement and firefighters or to judges,” said Rubin, a retired federal judge.

Reforming the Kansas Public Employees Retirement System has been a goal for years, after the recession left public employee pension systems across the country in heavy debt. The unfunded actuarial liability, or amount the system has promised above what it is projected to take in, within KPERS has grown past $10 billion.

To address the problem, legislators passed a "cash balance" plan in 2012 that will go into full effect next year and is projected to clear the KPERS debt by 2033.

That plan shifts more of the risk for market downturns to employees, but some conservative legislators have continued to favor the direct contribution option, which, like 401(k) plans, shifts all such risk to employees.

One of the main arguments against such a wholesale shift was cost. The unfunded actuarial liability within the current system is a legal obligation that must be paid and switching new hires to a direct contribution plan, while it would prevent such debts to the state in the future, would cause the state to have to pay into two systems until the legacy system was paid in full and closed.

Rep. Ed Trimmer, D-Winfield, asked Alan Conroy, KPERS executive director, what it would cost to pay off the old plan.

“We don’t have a specific amount, but I guess from a (KPERS) Trust (Fund) standpoint, the important thing is that language is there,” Conroy said, to make it clear that the state wouldn’t attempt to leave the old plan unfunded.

Rubin said after the hearing that would definitely be in the bill.

"I would not propose anything that does not address paying off the unfunded actuarial liability," he said. "That will be done. So there will be some costs to the state but I would submit that in the long term that cost will be less."

Ernie Claudel, speaking in his capacity as a representative of Kansas Coalition of Public Retirees and not for the KPERS board of trustees, said KCPR remains wary of the direct contribution plan.

"We have always been opposed to a D.C. plan because of concerns about what effect it would have on the unfunded actuarial liability," Claudel said.

Rep. Steven Johnson, R-Assaria, the chairman of the pensions committee, thanked Rubin for his idea and said the committee may have a bill to look at next week. He also promised committee members he would check in with Gov. Sam Brownback's office to see if an actuarial analysis on the direct contribution plans that former budget director Steve Anderson was working on before he departed is ready.

Johnson also noted that the KPERS Trust Fund had an excellent year in the market, with 17.7 percent returns.

"It was great to see that 17 percent number," Johnson said. "That makes things look better."

Despite market rebounds in recent years, the state's unfunded liability has increased because the pensions administrations are still "smoothing" out losses during the recession years.

Rubin said that debt increase might give his bill the push to succeed in the Legislature where others have failed.

"I'm not sure anything is different other than a greater realization among our members that KPERS is not only underfunded, it seems to be getting worse," Rubin said.

Kansas legislators weighing more changes to KPERS

By Bryan Lowry, Eagle Topeka bureau

Despite passing pension reforms in 2013, legislators are considering making further tweaks to the Kansas Public Employee Retirement System. A House Bill, if passed, would reduce the annual interest credits public employees are set to receive from 2015 forward.

House Bill 2533 would decrease the interest rate that public employees receive on their contributions to the pensions to 4 percent from 5.25 percent. The rate of 5.25 percent was signed into law in 2013 and is scheduled take effect in 2015.

Rebecca Proctor, chairwoman of the Keeping the Kansas Promise Coalition, an advocacy group for public retirees, questioned why the legislators would want to change reforms that have not gone into effect during a hearing before the House Committee on Pensions and Benefits on Monday.

“We thought pension reform was done,” Proctor said. She said that further tinkering was a source of anxiety for those depending on the state pensions for their retirement. Proctor said that public employees essentially took a pay cut by making greater contributions to their pension funds under recent reforms, but that they did so to stabilize the pension fund.

“We can’t get behind anything that lowers the benefit any more,” Proctor said.

She argued the committee should weigh “impact on communities where those employees live,” noting that retirees’ with stable pensions helped support local businesses across the state as consumers.

Rep. Jim Howell, R-Derby, the committee's vice chairman, said the committee is not looking to cut benefits for existing employees. Changes would apply to future employees.

Secretary of Treasury Ron Estes said the plan offered an "upside" to public employees by ensuring that the pension fund would remain solvent in the future.

"I think this direction's probably a much better approach to help us dig ourselves out of the hole we've been crawling into for the past 21 years," Estes said.

Many public retirees have already fretted that the pension system could be where the Legislature will look to find extra funds if the Supreme Court hands down an affirmative decision in the school finance case. The Kansas Coalition of Public Retirees – including a chapter from Wichita – is scheduled to have a rally at the Capitol on Wednesday.

Report: Arizona public employee pension systems on path to stability

February 03, 2014 12:00 am • By Moriah Costa Cronkite News Service

PHOENIX — Arizona's public pension systems for state employees, public safety personnel and corrections officers are on a path toward financial stability, according to a study by a bipartisan think tank.

Despite having funding to meet 71.6 percent of pension obligations — a gap of $14.5 billion — reforms enacted in 2011 have curtailed the growth of future liabilities, according to the Grand Canyon Institute.

"We are back on track, but it will take awhile to recover," said **Dave Wells**, research director for the group, which has former Democratic and Republican lawmakers on its board.

The reforms approved by the Legislature included changing the minimum retirement age to 65 with five years of service, 62 with 10 years of service, 60 with 25 years of service and 55 with 30 years of service. If an employee retires and returns to work, as in the case of a teacher, employers must pay back any money the state would have paid toward the employee's pension fund.

The changes apply to those hired after July 1, 2011.

Other reforms increased the contribution rate of the Public Safety Personnel Retirement System to 9.5 percent and decreased the amount of benefits the pensions would receive if the portfolio performed above 9 percent in a year.

The study also noted that Arizona now follows best practices for public pension plans as laid out by the National Institute on Retirement Security.

Some states have moved from defined-benefit to defined-contribution plans, in which employers and new employees pay into 401(k)-style plans that have employees face the risks of market ups and downs. But the report said such a change here would actually increase the cost to Arizona taxpayers.

Wells said that's because employees covered by a defined-contribution plan wouldn't contribute enough to generate the return needed to meet obligations owed to longer-term employees who would still be covered by the defined-benefit plans.

"We would have to collect more money to make it up, which would make it harder to pay off the $14.5 billion (in liabilities)," he said.

But the current system costs Arizonans too much, said **Byron Schlomach**, director of the Center for Economic Prosperity at the Goldwater Institute, an independent watchdog group that promotes limited government and free enterprise.

"Anything's sustainable when you have a bunch of taxpayers paying for it," he said.

Disagreeing with Wells, Schlomach said if the state moved to a defined-contribution plan it would create an investment fund large enough to meet pension obligations to retirees who would remain covered by the current plans.

"We need to put the risk where it belongs, and that's on the human being in the system and not on everybody else," he said.

Spencer Brien, an assistant professor at Arizona State University's School of Public Affairs, criticized the study's analysis of defined-contribution plans.

"They're comparing their optimistic view of the defined-benefit plans with the bad practice of defined contributions," he said. "If they compared the best practice of defined contributions, they would have a better outcome in their analysis."

He said local governments would be better off with defined-contribution plans like a life cycle fund, in which portfolios are automatically adjusted throughout the lifespan of the fund, going from higher risk to lower risk as investors near retirement

FRS bill emerges in Senate

Cash-balance plan would protect against losses, at-risk employees have pension option in hybrid approach

Feb. 12, 2014 |

How a cash-balance system would work

Legislation introduced in the state Senate this week would add a new option to the two retirement plans that currently make up the Florida Retirement System. The proposed cash-balance plan would involve individual employee accounts, like the 401(k)-style investment plan. But like traditional pensions, the state would carry investment risks so there would be a guaranteed minimum retirement benefit.

Cash-balance accounts would receive funding from three sources:

• The 3 percent of salary workers are required to contribute toward retirement

• Employer contributions based on a percentage of monthly compensation

• Payments equal to 2-percent interest on the account balances, plus additional payments if the plan's investments earn more than 2 percent

If the investment returns exceed 2 percent, employees would receive three-fourths of the amount over that. For example, if the investments earn a 6-percent return, the account would receive automatic 2-percent interest payments, plus an additional 3 percent, for a total of 5 percent.

If the investments earn less than 2 percent, the employees would still receive a 2-percent interest credit.

Once the employees retire, they could choose to receive either the value of their cash-balance account in a lump sum, or they could roll it into a traditional retirement account, or they could receive their payments over time, in the form of a guaranteed annuity benefit.

Bills filed in the Florida Senate would close the state's pension plan to future teachers and state employees, while creating a new retirement option for government workers.

The legislation would make the state's 401(k)-style investment plan the default retirement option for members of the Florida Retirement System hired after July 1, 2015. Public employees would also be able to choose a new cash-balance plan, which would create individual employee accounts that would be insulated from investment losses.

Beginning in July of next year, only "special risk" employees such as police and firefighters would be able to choose the state's traditional pension plan.

The cash-balance system would create individual accounts, similar to the current investment plan, but the state would be responsible for investment-loss risks. Supporters hope the hybrid approach, combined with other changes including the considerations for special-risk employees, will help the new effort win more support than the retirement overhaul that was thwarted on the Senate floor during the final week of last year's legislative session.

Wilton Simpson, R-Trilby, chairs the Senate Community Affairs Committee, which proposed the legislation this week. He said the proposal is designed to free the state from having to spend $500 million a year to close the retirement system's $21.6 billion unfunded liability.

"If this year we do not pass a pension-reform bill, everybody in the system is losing," he said. "The taxpayer is losing. The members of the current FRS are losing. And future members of the FRS are losing because at some point we will not be able to put enough money into the system to continue to prop it up."

The cash-balance bill (SB 7046) would not change the pension benefits available to existing government workers.

However, during a news conference, Joanne McCall, vice president of the Florida Education Association, said if new employees don't replenish the system, it will threaten the financial stability of the fund, which pays benefits to 375,000 retired teachers and includes 620,000 current school workers. The teachers' union is calling on its members to send valentines to legislative leaders opposing changes to the retirement system.

Pension system admits data was taken

By Craig Harris The Republic | azcentral.comFri Feb 14, 2014 10:26 PM

The statewide trust that manages pensions for police officers, firefighters, politicians and corrections officers notified its members and their employers this week of a potential security breach even though trust managers have known about the issue since last fall.

Christa Severns, a spokeswoman for the Public Safety Personnel Retirement System, said Friday that she could not specifically say why the trust took months to notify its more than 52,000 members and their employers of a possible problem.

"To avoid compromising an ongoing investigation, we cannot disclose information at this time," she said.

The trust is offering its members a one-year identity-theft protection program through LifeLock. It's unknown how much that will cost the system.

In a letter to members and public employers, the pension system said that a former employee had downloaded files from an internal computer prior to his departure last year and some information included the names, e-mail addresses, Social Security numbers and addresses of members.

That employee was Anton Orlich, a lead portfolio manager and one of four high-ranking system staff members who quit in protest last year amid concerns that senior management was not properly reporting the values of real estate assets. Those employees also expressed concern that the reporting of higher values triggered staff bonuses.

Orlich, in court records, said he took the documents prior to his June 7 resignation because of his concern that PSPRS management would move or delete files. The records state that he wanted to protect trust beneficiaries, other staff members and himself.

Orlich is now cooperating with the FBI, which is investigating those claims. The U.S. Attorney's Office recently began a federal grand-jury investigation into the trust. Trust officials have denied any wrongdoing.

Lynn Adams, Orlich's attorney, said it's curious the trust would now notify its members of a potential security breach because the trust has known about the issue since October.

"It's just another attempt to throw attention away from the FBI investigation," Adams said.

The trust, in a letter to employers, said it brought a lawsuit against the former employee in early October 2013. That suit alleges Orlich improperly removed documents from trust offices.

In a sworn declaration, Orlich said he did not know the information he took included personal information, and he never looked at it. Orlich has turned the records over to a Maricopa County Superior Court judge, who ordered them returned to the trust.

Adam Levin, chairman of Scottsdale-based Identity Theft 911, which specializes in theft recovery and breach services, said the pension trust took too long to notify members.

"This long delay opens the Public Safety Personnel Retirement board up to state and federal regulators and puts at risk millions of dollars in pension funds. In addition, Arizona law requires notice after a reasonable investigation determines that there has been a breach of security," Levin said.

Levin said members should have been notified by mid-December.

The $7.7 billion trust finances the pensions for three state retirement plans: the Public Safety Personnel Retirement System, the Elected Officials Retirement Plan and the Corrections Officer Retirement Plan.

Rhode Island Pension Overhaul Is Softened; State Officials, Union Agree to Roll Back Retirement Age, Other Changes

Feb. 14, 2014
PROVIDENCE, R.I.—State officials and unions here announced a tentative agreement Friday to water down a sweeping 2011 pension-overhaul law that shored up one of the nation's most underfunded public-retirement systems and was seen as a landmark shift in a solidly Democratic state.

After months of court-ordered mediation, the two sides said they had reached a settlement in a legal challenge brought by public-sector unions more than a year ago. The proposed agreement favors veteran employees: It would roll back the retirement age for many current workers to 65 from 67, increase the frequency of cost-of-living adjustments, and restore a traditional defined-benefit plan for workers with 20 years or more on the job.

The deal still must be approved by rank-and-file members, a judge and the state Legislature, where leaders have expressed concern about reopening a fierce debate over changes that brought a measure of financial stability to a state with the country's highest unemployment rate. Its jobless rate was 9.1% in December.

Efforts to rein in public-pension costs have drawn dozens of legal challenges, from Illinois to Louisiana to San Jose, Calif. The debate in Rhode Island has been watched closely because it was one of only a few states that cut benefits for both current employees and retirees, raising a thorny question about whether pension benefits are contractual promises that states can't break.

Courts have been divided over the issue. Rhode Island officials saw the agreement as a way to avoid the chance that a court could toss out the entire law after costly litigation. Unions saw a chance to win back benefits.

"Nothing's perfect," said Rhode Island Treasurer Gina Raimondo, a Democratic gubernatorial candidate who had been lauded nationally by conservatives for pushing the overhaul. "It is a practical solution to a serious problem."

A spokeswoman for Ms. Raimondo said the deal would preserve most of a projected $4 billion savings over the next two decades.

Some overhaul advocates were disappointed. "We were told that unless the [2011] bill they proposed was enacted that there would be dire consequences, and all of the sudden there are not dire consequences?" said Gary Sasse, the former director of the Department of Administration under Republican former Gov. Donald Carcieri and now founding director of the Hassenfeld Institute for Public Leadership at Bryant University. The wrangling shows it is often "extraordinarily hard" to change future benefits for current employees, Alicia Munnell, the director of the Center for Retirement Research at Boston College, said before the announcement. Rhode Island's law took effect in 2012. Public pension funds struggled during two recent recessions, though many are starting to recover. Critics say some funds paid overly generous benefits to unionized workers for years, but other people cite accounting assumptions that made plans appear healthier than they were.

Rhode Island's 2011 law affected 66,000 active and retired public workers and immediately cut the state's unfunded pension liability from about $7 billion to about $4 billion.

It raised retirement ages for many employees to a high of 67 and shifted workers from a defined-benefit plan into a hybrid pension-401 (k)-style plan. It also suspended automatic annual cost-of-living adjustments. Workers were set to receive increases

every five years until the pension system was at least 80% funded—estimated to take 14 years or more. COLAs were linked to the performance of the fund.
The proposed deal would give employees a 2% COLA after the legislation is passed and then one every four years until the system is 80% funded. The increases would be pegged to a mix of fund performance and the Consumer Price Index.

Retirement age was restored to 65 for workers employed as of June 30, 2012, after 30 years of service, though some older workers will still be able to retire sooner.

Before the law passed, 58% of retired teachers and 48% of retired state employees—among those age 65 and over with 30 years of service—were earning as much or more from pension benefits than they had earned while working, according to the state, which said COLAs accounted for 45% of the unfunded liability.

A coalition of retired and active union members sued in state Superior Court in July 2012, arguing that the law violated the contract clause of the state Constitution. The state tried to dismiss the suit, but a judge sided with the unions that pensions could be considered contracts.

Roger P. Boudreau, president of the Rhode Island branch of the American Federation of Teachers' retirees chapter and a member of the state's pension board, said the settlement "protects the system and treats retirees more fairly than the legislation presently in effect."

A similar fight is playing out in Illinois, which has an estimated $100 billion unfunded liability for its public-employee retirement system. In December, Democratic Gov. Pat Quinn signed into law an overhaul designed to fully fund the system in 30 years. The Illinois plan would reduce annual cost-of-living increases for retirees and gradually raise the retirement age for current workers, among a number of changes.

Last month, several unions including the American Federation of State, County and Municipal Employees, the nation's biggest public-employee union, sued in state court to overturn the law, arguing that it violates the state constitution.

A pathway to stronger plans

By: Pensions & Investments

Published: March 3, 2014

An independent panel of the Society of Actuaries has laid out a path to strengthen public defined benefit plans, championing the valuation of pension liabilities in a more economically realistic way.

The proposal, presented in a report released Feb. 24, frames the issue of improving funding levels by tackling the conflicting objectives of pension plans, including cost stability vs. investment volatility and intergenerational equity vs. short-term public budgeting pressures.

Depending on the path sponsors take, these areas can contribute to strengthening or weakening public funds. Public retirement systems have tended to favor expedient approaches that lowered pension contributions and liabilities in the shorter term, but in the longer term undermined long-term funding levels and retirement security.

The question is whether the constituencies involved with public funds, including actuaries, pension trustees, and the Actuarial Standards Board, will accept the SOA panel's recommendations.

They should embrace them. But their impulse in the past has been to resist infusing the systems with better economics. When the Governmental Accounting Standards Board sought to change the accounting method for valuing liabilities, it was pressured to moderate its initial ideas.

With the SOA panel's proposals, it is in the interest of proponents of public retirement systems, including actuaries, to change. Otherwise the systems sow their own seeds of vulnerability to building pressures to scrap defined benefit plans and move to defined contribution plans, putting all investment risk onto participants.

The SOA panel's proposal seeks to help public sponsors to make their systems stronger.

One of its key recommendations is that public retirement systems should use a forward-looking rate to discount pension liabilities to give a truer economic picture of plan costs, rather than historical plan returns, which tend to understate liabilities.

The new rate would replace the actual long-term rate of return on plan assets generally used now by sponsors and their actuaries to discount liabilities and set contribution levels.

The panel should have gone further and recommended the use of a risk-free rate — or the rates on the Treasury yield curve — for valuing pension liabilities. In the 68-page "Report of the Blue Ribbon Panel on Public Pension Plan Funding," the 12-member panel recognized the superiority of the use of the risk-free rate for such valuation.

“Economic theory suggests that achieving full intergenerational equity means that current taxpayers should pay the "risk-free' cost of services so as not to burden future taxpayers with the cost of investment risk being taken by current taxpayers,” the report said.

“The panel recognizes that most plans prefer the lower current cost achieved by assuming higher expected investment returns (and therefore higher risk taking and a possible shift of costs to future generations), as opposed to preserving pure intergenerational equity.”

Benefits that are riskless, such as those pension benefits protected by provisions in state constitutions that prohibit reductions, should be discounted at the risk-free, or at least a very low, rate to provide for funding adequacy to ensure pension promises are kept.

Public plans believe their sponsoring entities, states and cities, don't go out of business, enabling them to withstand short-term market and funding challenges and use a higher assumed rate. But the bankruptcy filings by Detroit and some other cities reveal the fallacy of that thinking. States cannot seek bankruptcy, but economic challenges might force their taxpayers to do so, or at least be unable to bear further economic burdens, making difficult raising revenue to finance pension contributions.

The SOA panel instead chose a forward-looking rate, which it said would be lower than the rate generally in use now by public sponsors. For forecasting the rate, “it is important to consider the extent to which future economic and market conditions may differ from those of today or of the past,” the report said, noting “the long-term secular decline in interest rates ... strongly suggests that the robust fixed-income performance of the past is not likely to be repeated in the future.”

The panel incorporates the risk-free rate as a risk management tool as part of its recommendations to enhance disclosure of public systems. It recommends using the risk-free rate for reporting purposes to discount liabilities and to compare it against the investment return assumption as a way to gauge the level of investment risk taken by the plan. Such a move would be a good step toward assessing the risks and costs of plans.

The underfunding of plans tends to derive from a lack of contributions and the overpromising of benefits, including cost-of-living increases, rather than from insufficient returns on assets. Many funds have tended to achieve their assumed rate of return over the long term.

“Funding adequacy and intergenerational equity should take precedence over the goal of cost stability and predictability,” the report said. Even though “predictability of cost in the short term is important for public budgeting purposes,” the report said, “allocating a significant portion of investments to higher-risk, more volatile assets will tend to undermine the goal of cost stability.”

In addition, the panel recommends governmental entities responsible for funding and plan trustees “should strive to fund 100%” of pension obligations, rather than the 80% typically considered as adequate. “Financial resources, including both current and future contributions, should be adequate to fund benefits over a broad range of expected future economic outcomes" and "respond to changing economic conditions," the report said.

Among the recommendations, the report calls for other enhanced disclosure, which would help taxpayers understand the complexities of pension finance and could build support for strengthening plans.

The panel plans to take its recommendations to the Actuarial Standard Boards, which adopts standards of practices for the actuarial industry. The process might take some time to play out, even if the ASB embraces the panel's recommendations.

Trustees should not wait; they should adopt the suggestions. That would take agreement from the funding sources of public plans, especially state and local legislators. But the status quo leaves the plans vulnerable to underfunding.

If public entities want to keep defined benefit systems, they have to make funding a priority. The SOA panel shows them how to do so.

Oklahoma House passes pension bill that moves new state workers to defined contribution plan

By Tim Talley, Associated Press, March 11, 2014

OKLAHOMA CITY — Many new state workers would have 401(k)-style retirement plans rather than traditional public employee pension plans under a measure the Oklahoma House passed on Tuesday.

The House approved the measure 57-42 and sent it to the state Senate, which has already passed similar legislation. House members also voted 90-0 for a bill that would give many state workers their first pay raise in seven years and revamp state worker compensation. Legislative leaders have said the measure is intertwined with the pension overhaul bill.

Under the bill by Rep. Randy McDaniel, R-Edmond, state workers hired after Nov. 1, 2015, who are part of the

Oklahoma Public Employee Retirement System would be shifted from the current defined-benefit pension plan to the 401(k)-style defined-contribution plan.

New state employees would contribute at least 3 percent of their salaries for retirement and the state would match employee contributions up to 7 percent. Current state employees would remain under the old system and the bill would not affect current retirees or public safety employees like police officers and firefighters.

Supporters say the bill will help reduce the estimated $11.6 billion in unfunded liability in the state's public pension systems and allow employees to take their retirement plans with them if they leave state service for the private sector.

"We are adding mobility and portability," McDaniel said. "This is talking about freedom, freedom for the individual."

McDaniel said the state will allocate about $820 million this year to address unfunded pension debt. He said his bill will free millions of dollars that could be used for higher salaries for state employees, education and transportation.

"Oklahoma faces a pension crisis," said House Speaker Jeff Hickman, R-Fairview. "Service and hard work should be compensated, and our state employees and taxpayers deserve a system that is modern, efficient and sustainable."

But opponents expressed concern that eliminating the traditional pension system will make saving for retirement more uncertain for state workers.