Agenda

ND Teachers' Fund for Retirement Board Meeting

Thursday, July 24, 2014
1:00 pm
Peace Garden Room
State Capitol, Bismarck, ND

1. Call to Order and Approval of Agenda – Pres. Gessner (Board action)
2. Approval of Minutes of May 15, 2014 Meeting – Pres. Gessner (Board action)
3. Trustee Re-appointment – Pres. Gessner (Information)
4. Election of 2014-15 Officers – Pres. Gessner (Board action)
5. Legislative Update – Fay Kopp, Shelly Schumacher (Information)
6. DOMA Update – Fay Kopp, Jan Murtha (Information)
7. GASB Implementation Update – Fay Kopp, Shelly Schumacher (Information)
8. TFFR Investment Update – Dave Hunter (Information)
9. Funding projections – Fay Kopp (Information)
10. SIB Audit Committee Update – Pres. Gessner (Information)
11. Annual IT Update and Technology Initiatives Discussion – Rich Nagel (Board action)
12. Annual TFFR Program Review – Fay Kopp, Board (Board action)
13. Annual TFFR Customer Satisfaction Reports – Fay Kopp (Board action)
14. Trustee Education – Fay Kopp (Information)
15. Consent Agenda (Board action)
    - Disability Applications

    *Executive Session possible if Board discusses confidential information under NDCC 15-39.1-30.
16. Other Business
17. Adjournment

**Next Board Meeting: August 22, 2014 (tentative) *
September 25, 2014**

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

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
MAY 15, 2014, BOARD MEETING

BOARD MEMBERS PRESENT: Mike Gessner, President
Clarence Corneil, Vice Chair
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

OTHERS PRESENT: Mary Kae Kelsch, Attorney General's Office

CALL TO ORDER:

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the board meeting to order at 3:30 p.m. on Thursday, May 15, 2014. It was conducted via teleconference from the Retirement and Investment Office (RIO) conference room.

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

APPROVAL OF AGENDA:

The Board considered the meeting agenda.

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

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

MINUTES:

The board considered the minutes of the regular TFFR board meeting held March 27, 2014.

MR. OLSON MOVED AND MR. LECH SECONDED TO APPROVE THE MINUTES OF THE REGULAR TFFR BOARD MEETING HELD MARCH 27, 2014.

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

GASB 67/68 IMPLEMENTATION:

Mrs. Fay Kopp, Deputy Executive Director/Chief Retirement Officer, presented information on plans for the implementation of the Governmental Accounting Standards Board (GASB) Statements No. 67 and 68. TFFR has been working closely with PERS and the State Auditor's Office (SAO) in order to reduce costs, reduce duplication of effort, and provide consistent reporting to participating employers. Discussions have also included the plan actuaries (two different Segal consultants for PERS and TFFR) and plan auditors (CliftonLarsonAllen for TFFR and Brady Martz for PERS). The plan that has been developed includes three basic tasks: educate our stakeholders and participating employers; develop the necessary information for RIO/TFFR financial statements and the information which will be sent to participating employers for inclusion in employer financial statements; integrate this effort into the ongoing operations of the plan going forward. June 26, 2014, has been tentatively scheduled for a working group meeting with six employers each from TFFR and PERS, state fiscal and audit personnel, and other interested stakeholders. The business manager, administrator and auditor of each employer would be invited. A statewide educational session for all TFFR and PERS employers is tentatively planned for November 18, 2014. It will be recorded so that it can be made available on the website also.

Eric Berman, a consultant from Eide Bailly who has been working with other state and local governments around the country to implement GASB 67/68, has been contacted to conduct the educational sessions. Mrs. Kopp reviewed the April 24, 2014, proposal received from Eide Bailly. The cost will be shared with PERS, however work relating specifically to one system or the other would be that system's responsibility. Mrs. Kopp stated an estimate was also received from Segal to conduct the educational sessions.

TREASURER SCHMIDT MOVED AND MRS. FRANZ SECONDED TO APPROVE THE APRIL 24, 2014, PROPOSAL FROM ERIC BERMAN, EIDE BAILLY, TO CONDUCT THE GASB 67/68 EDUCATIONAL SESSIONS, AND PROVIDE CONSULTING SERVICES AS NEEDED.

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

Mrs. Kopp explained the additional schedules, disclosures, and information which will need to be developed for RIO/TFFR financial statements and the information which will need to be sent to participating employers for inclusion in employer financial statements. She also reviewed Segal's letter dated April 22, 2014, which describes the estimated cost of developing this additional information and production timeline.

MR. OLSON MOVED AND MR. CORNEIL SECONDED TO APPROVE THE GASB 67/68 IMPLEMENTATION PLAN AND ASSOCIATED EFFORTS.

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

DOMA UPDATE:

Mary Kae Kelsch, Director of State and Local Division of the ND Attorney General's Office (AGO), reviewed guidance from the Internal Revenue Service (IRS) relating to the Defense of Marriage Act (DOMA). The AG office is recommending that specialized legal expertise by outside tax counsel be attained to review current statutes and advise the board on what, if any plan amendments are needed to respond to this guidance, and the deadline for making any plan amendments. Mrs. Kelsch stated PERS is also hiring outside tax counsel, and it would be advisable for TFFR and PERS to jointly retain counsel.

TREASURER SCHMIDT MOVED AND MR. LECH SECONDED TO GRANT MRS. KOPP THE AUTHORITY TO CONTRACT WITH OUTSIDE TAX COUNSEL TO ADDRESS THE DOMA ISSUE, IN COLLABORATION WITH THE AGO AND PERS.

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

LEGISLATIVE UPDATE:

Mrs. Kopp informed the board there is a Legislative Employee Benefits Programs Committee (LEBPC) meeting June 5, 2014, at which time she will review the provisions of TFFR's technical corrections bill. Mrs. Kopp also updated the Board on the status of the state retirement plan study by the Legislative Government Finance Committee (LGFC).

OTHER BUSINESS:

The approved board meeting schedule is included in the board packet. The next scheduled meeting will be held July 24, 2014.

ADJOURNMENT:

MR. CORNEIL MOVED AND MRS. FRANZ SECONDED TO ADJOURN THE MEETING.

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

The meeting adjourned at 4:16 p.m.

Respectfully Submitted:

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

_____
Darlene Roppel
Reporting Secretary

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **July 17, 2014**

SUBJ: **Trustee Appointment**

I am happy to inform the Board that Governor Dalrymple has re-appointed Kim Franz to continue serving on the TFFR Board for another 5 year term (2014-2019). She has been on the board since 2006 and represents active teachers.

Many thanks to Kim for accepting this appointment. Kim's dedication and efforts are greatly appreciated.

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **July 17, 2014**

SUBJ: **Election of Officers**

The TFFR Board is required by state law to elect officers at the first meeting of each fiscal year. Current board assignments are attached. For the 2014-15 year, the Board will need to elect the positions of President and Vice President. The Board will also select trustees to represent TFFR on the State Investment Board (one active administrator, one active teacher, one retired member), the SIB Audit Committee (one member), and an SIB alternate (one member). The State Treasurer is required by virtue of her position to serve on the State Investment Board, so that is not subject to Board assignment.

Statutory references are included below for your information.

Teachers' Fund for Retirement (TFFR)

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

1. The authority to set policy for the fund rests in a board of trustees composed as follows:

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

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

c. The governor shall appoint, from a list of three nominees submitted to the governor by the North Dakota retired teachers association, two board members who are the retired members of the fund.

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

2. All current appointees of the board shall serve the remainder of their terms as members of the board until their terms expire and their successors are appointed. The first newly appointed board member under subdivision a of subsection 1 must be appointed to serve an initial term of four years. The first newly appointed board member under subdivision c of subsection 1 must be elected to serve an initial term of five years. Newly appointed board members shall serve a term of five years. Each newly appointed term begins on July first.

3. Each board member is entitled to one vote, and four members constitute a quorum. Four votes are required for resolution or action by the board.

15-39.1-06. Organization of board.
The board may hold meetings as necessary for the transaction of business and a meeting may be called by the president or any two members of the board upon reasonable notice to the other members of the board. The president for the ensuing year must be elected at the first meeting following July first of each year.

15-39.1-07. Vacancies - Rulemaking power.
Vacancies which may occur among the appointed members of the board must be filled by the governor and the appointee shall complete the term for which the original member was selected. The board may adopt such rules as may be necessary to fulfill the responsibilities of the board.

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

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State Investment Board
21-10-01. State investment board - Membership - Term - Compensation

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

Enclosure

TFFR Board

2013 - 2014 Assignments

Officers of the board

- ❑ President — Mike Gessner
- ❑ Vice President — Clarence Corneil

Board members serving on the SIB

- ❑ Mike Gessner
- ❑ Rob Lech
- ❑ Clarence Corneil
- ❑ State Treasurer Schmidt (ex-officio)

SIB Audit Committee

- ❑ Mike Gessner

SIB alternate

- ❑ Kim Franz

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **July 17, 2014**

SUBJ: **Legislative Update – Interim Committees**

Legislative Employee Benefits Programs Committee

The Employee Benefits Programs Committee last met on June 5, and reviewed legislative proposals relating to various state retirement, investment, and insurance programs. I presented the provisions of Bill No. 140 which updates certain dates to stay current with federal IRC tax law changes as they relate to qualified governmental pension plans. Testimony and bill draft are attached. The Committee took jurisdiction over the bill, and it has been sent to Segal for technical analysis. No other bills directly related to TFFR were filed for interim study. Future meetings of the Committee are scheduled for September 18 and October 29, 2014.

Legislative Government Finance Committee

The Government Finance Committee met on July 1, 2014. The Committee received an update from Gallagher & Co. on the actuarial review being conducted for the Committee on the state employee retirement plan. The final report from Gallagher is expected in September. The Committee plans to draft a bill relating to their study. Their next meeting is tentatively scheduled for August 5.

Enclosures

NDTFFR Legislative Proposal – Bill No. 15.0140.01000

LEGISLATIVE COUNCIL EMPLOYEE BENEFITS PROGRAMS COMMITTEE
June 5, 2014

Fay Kopp, Deputy Executive Director - Chief Retirement Officer
ND Retirement and Investment Office - ND Teachers' Fund for Retirement

Bill No. 140 was submitted by the TFFR Board. The bill makes a number of technical updates to TFFR statutes. These changes are not expected to have an actuarial effect on the plan, and are not being submitted for funding improvement purposes.

In general, the bill updates certain dates to stay current with federal Internal Revenue Code (IRC) tax law changes as they relate to qualified governmental pension plans. The proposed amendments are intended to prevent a change in the federal IRC from automatically triggering a change in ND law. Please note that on May 30, 2012, the IRS made a favorable determination on the ND TFFR plan based on its application in 2010. The plan will be submitted for IRS review again in 2015.

Section 1. NDCC 15-39.1-04 (10) Definitions: Eligible Retirement Salary

Updates reference to federal tax law changes in effect on August 1, 2015, to comply with IRS qualification requirements. Increases the maximum annual compensation limit that can be used in benefit calculations ($260,000 in 2014). No active TFFR member currently has a salary large enough to be affected by this limit.

Section 2. NDCC 15-39.1-10(4) Eligibility for benefits

Updates reference to federal tax law changes in effect on August 1, 2015, to comply with IRS qualification requirements. Provision relates to minimum distribution requirements requiring payment of retirement benefits at age 70.5 or termination of employment, whichever is later.

Section 3. NDCC 15-39.1-10.6 Benefit limitations

Updates reference to federal tax law changes in effect on August 1, 2015, to comply with IRS qualification requirements. Increases the Section 415 maximum annual benefit limit ($210,000 in 2014). To date, no retiree's benefit has exceeded the annual benefit limit.

Section 4. NDCC 15-39.1-20 Withdrawal from Fund

Updates reference to federal tax law changes in effect on August 1, 2015, to comply with IRS qualification requirements. Provision relates to the requirement that a member or a member's beneficiary may elect to have any portion of an eligible rollover distribution paid to an eligible retirement plan permitted under IRC.

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This concludes my testimony regarding the study bill submitted by the TFFR Board. I would be happy to respond to your questions. Thank you.

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 subsection 10 of section 15-39.1-04, subsection 4 of section 15-39.1-10, and sections 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: **Shelly Schumacher**

DATE: **July 24, 2014**

SUBJ: **Legislative Implementation Update –**
Employer Payment Plan Model Update

As you recall, the 2011 funding improvement legislation included a contribution increase effective July 1, 2014. TFFR employers were asked to complete a new Employer Payment Plan form in January 2014 and were instructed to modify their payroll systems to increase the employer contribution rate from 10.75% to 12.75% and the employee contribution rate from 9.75% to 11.75% effective July 1, 2014.

To date, 214 of the 216 July 2014 employer payment plan forms have been received by TFFR. The following summarizes the model changes that resulted from the increase in contributions and employer/member negotiations:

Models FY2014 219 Employers		**Models FY2015 216 Employers**		**Net Change***
Model 1	92	Model 1	89	- 3
Model 2A	85	Model 2A	77	- 8
Model 2P	23	Model 2P	32	+ 9
Model 3	5	Model 3	5	0
Model 4	6	Model 4	5	- 1
No Model	7	No Model	5	- 2
Other	1	Other	1	0
		No Form	2	

*Net change is outcome of 21 employers changing models and/or the pickup amount and the loss of 3 employers for 2014-15. Employers that were picking up the 9.75% and are not picking up the additional 2% totaled 7.

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

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

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

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

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **July 17, 2014**

SUBJ: **DOMA / Windsor Decision Update**

At the May 15, 2014 TFFR Board meeting, Mary Kae Kelsch from the Attorney General's Office reviewed guidance from the IRS relating to the U. S. Supreme Court's "Windsor decision" with regards to the Defense of Marriage Act (DOMA) and potential impact on pension plans. At that time, the Attorney General's Office recommended that specialized legal expertise by outside tax counsel be retained to review current TFFR statutes and advise the board on what, if any, plan amendments are needed to respond to this guidance, and the deadline for making any amendments. She recommended that TFFR and PERS jointly hire outside tax counsel to conduct this analysis.

The TFFR Board approved a motion granting staff the authority to contract with outside tax counsel to address the DOMA issue in collaboration with PERS and the Attorney General's Office. The PERS Board also gave its approval to hire joint counsel.

Based on this authority, the following steps were taken:

1) I contacted our actuarial consulting firm, Segal Company, and requested the names of firms with expertise in this area. They provided the names of Mary Beth Braitman with Ice Miller LLP, and David Powell with Groom Law Group.

2) At the NCTR Director's meeting I attended in early June, I visited with a number of directors on this topic. The same two names (Mary Beth Braitman of Ice Miller and David Groom of Groom Law Group) were mentioned as being the individuals/firms with the best expertise with public pension plans and tax issues. Mary Beth Braitman was probably the most frequently cited. She has also presented at NCTR meetings which I have attended, and has an excellent reputation in the public pension community.

3) Jan Murtha did a survey of other public pension fund attorneys to find out what law firms were being used for those plans who retained outside counsel. Fourteen responses were received of which eight used Ice Miller, four used Groom, one used another firm, and one conducted the analysis in house. It was also noted that one of the systems using Ice Miller has a similar situation to North Dakota where constitutional provision questions applied as well.

4) After discussions with PERS and the Attorney General's Office, we contacted Mary Beth Braitman of Ice Miller law firm and requested a proposal and fees for conducting the analysis of the TFFR and PERS plans and assisting the plans with related issues. A copy of Ice Miller's June 24, 2014 proposal is attached.

5) After reviewing the proposal and fees, I contacted another public plan for a reference and fee comparison, which was also positive.

6) PERS and TFFR then proceeded to work with the Attorney General's Office and Ice Miller to have four attorneys from the firm appointed as Special Assistant Attorney General, and to execute the engagement letter. A copy of the signed engagement letter dated July 8, 2014 is also attached for your information.

Jan, Sparb, and I have had a teleconference with Mary Beth Braitman and other Ice Miller staff in which we discussed the timeline and plans for conducting the analysis. Ice Miller has started work on the project and we are scheduled to meet with them again on July 21. They expect to complete their review and present their recommendations in mid August.

Because it is possible that legislation may be needed to address issues related to the Windsor decision, the Board may need a special meeting in August to receive the report from Ice Miller and discuss the recommendations. If legislative changes are recommended, the Board will need to make a decision on whether or not to submit legislation. If so, the Board could either amend the TFFR technical corrections bill already submitted for interim study, or draft a new bill for late introduction at the September 18 legislative committee meeting.

At this time, I am suggesting the TFFR Board tentatively schedule Friday, August 22 at 1 pm for a special TFFR board meeting. (SIB meets the morning of August 22.)

Jan will be available at the meeting to provide general comments and information relating to the potential impact of the Windsor decision and ND constitutional issues regarding same sex marriage.

Enclosure

IceMiller
LEGAL COUNSEL

June 24, 2014

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Via Electronic Mail

Mr. Sparb Collins
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Ms. Fay Kopp
NDRIO Deputy Executive Director
NDTFFR Chief Retirement Officer
North Dakota Retirement & Investment Office
North Dakota Teachers' Fund for Retirement
PO Box 7100
Bismarck ND 58507-7100

RE: North Dakota Public Employees' Retirement System and North Dakota Teachers' Fund for Retirement ("Systems") – Proposal for Analysis Needed with Respect to the Effect of the United States v. Windsor Decision

Dear Mr. Collins and Ms. Kopp:

We are pleased to provide you with information from Ice Miller LLP ("Ice Miller" or "Firm") with regards to the Supreme Court *Windsor* decision and resulting IRS guidance, and action that may be needed to amend plans under the North Dakota Public Employees' Retirement System and the North Dakota Teachers' Fund for Retirement ("Systems") in order to comply with the decision and IRS guidance.

Ice Miller is a limited liability partnership, and is a full-service law firm with offices located in Indianapolis, Indiana; Chicago, Illinois; DuPage County, Illinois; Columbus, Ohio; Cleveland, Ohio; and Washington, D.C. Ice Miller was founded in 1910 with a commitment to providing personal service and valued counsel to our clients, which continues to the present. Ice Miller is fortunate to have a nationally recognized reputation in a number of its practice areas, including employee benefits. Ice Miller's historic and recognized focus areas have included employee benefits, municipal finance and government entity representation. Ice Miller has offered federal tax services since 1920. We have served public plans in tax, benefits, and fiduciary needs for more than 30 years. See Appendix B for a representative list of some of the current public fund clients for whom the Employee Benefits Group provides services as tax and/or employee benefits counsel.

Either of the undersigned may be contacted with respect to this information and are authorized to discuss this information with the Systems, to bind Ice Miller to the terms of such discussions, and to enter the written agreement with the Systems. Our contact information is as follows:

Mary Beth Braitman
Ice Miller LLP
One American Square
Suite 2900
Indianapolis, IN 46282
Phone: (317) 236-2413
Fax: (317) 592-4616
E-mail: braitman@icemiller.com

Tiffany A. Sharpley
Ice Miller LLP
One American Square
Suite 2900
Indianapolis, IN 46282
Phone: (317) 236-2398
Fax: (317) 592-4722
E-mail: tiffany.sharpley@icemiller.com

Thank you for taking the time to consider us for this project. The team we have assembled has extensive experience in acting as tax counsel for governmental pension systems, including providing comprehensive advice regarding the effects of the recent Supreme Court case *United States v. Windsor*. Ice Miller has the ability and the desire to meet the requirements and the needs of the Systems with respect to the effects of the *Windsor* case on all of the Systems' plans. We could use a matrix that we designed earlier that has worked well to "inventory" all plan provisions potentially affected by Windsor. We attached a sample page from such a matrix as Appendix C.

We would be honored to be selected to work with the Systems. Please note that attached are appendices with additional information that will be helpful when you are considering us. If you have any questions in addition to the information in this packet, please let us know.

Very truly yours,

ICE MILLER LLP

Mary Beth Braitman

Mary Beth Braitman

Tiffany A. Sharpley

Tiffany A. Sharpley

MBB:TAS
Enclosures:
Appendix A – Billing Information and Abbreviated Biographies
Appendix B – Representative Public Fund Clients for Employee Benefits Group
Appendix C – Example of One Issue on Chart for a Windsor Project

APPENDIX A

BILLING INFORMATION AND BIOGRAPHIES

Hourly Rates

We propose to offer the Systems the discounted rate per partner and paralegal as indicated below. Specifically, for 2014, our proposed discounted rates are as follows:

	Standard Hourly	Discounted Rate (10%)
Mary Beth Braitman, Partner	$575.00	$517.50
Tiffany Sharpley, Partner	$450.00	$405.00
John Zollo, Associate	$360.00	$324.00
Malaika Caldwell, Associate	$230.00	$207.00
Russell Haver, Paralegal	$220.00	$198.00

Additional Fees

Additional anticipated fees and expenses would include the following items: (1) photocopies are billed at 18¢ per page; (2) long distance telephone charges are billed based on actual costs to the Firm from the carrier; (3) on-line computer assisted legal research is billed at rates established taking into account vendor charges; (4) courier delivery expenses are to be charged at the regular rates imposed by Federal Express, UPS, or other applicable courier service companies; (5) facsimile expenses are billed at $1.50 per page; and (6) travel costs (such as airline tickets, hotel expenses, and meals) are billed based on the actual cost incurred. We would be willing to negotiate a different billing arrangement on each of these items should the Systems have any other preferences or requirements.

In the event we would make any filings with the IRS, the Systems would be responsible for any IRS filing fees.

Abbreviated Biographies

Mary Beth Braitman is a partner in Ice Miller's Indianapolis office. Mary Beth works with governmental retirement and health systems compliance with federal law, fiduciary issues and plan design innovations. Recent projects include financing/designing health benefits; fiduciary audits on governance and investment practices; pick-up programs; qualified excess benefit arrangements; correction projects; and design of comprehensive compliance strategies. In the last several years, a number of complex "change" questions have arisen, often in connection with sustainability and design projects. Mary Beth advises with respect to potential federal law and fiduciary issues in these projects. We strive to be creative and constructive in these projects. - See more at: http://www.icemiller.com/people/mary-beth-braitman/#sthash.RnuNZzbz.dpuf

Tiffany A. Sharpley is a partner in the employee benefits group at Ice Miller's Indianapolis office. She concentrates her practice on employee benefits, representing primarily public sector clients. Her experience includes providing advice to governmental retirement systems, utilities, municipalities, state governments, nonprofit entities, churches, and private and

public companies. Tiffany works on a variety of employee benefit projects, such as retirement matters related to defined-benefit and defined-contribution plans, which include taxation of death and disability benefits, minimum distribution questions, eligibility concerns, benefit calculations, tax compliance concerns such as complying with compensation limits when determining member's' contributions and benefits. She also advises clients regarding welfare matters, such as compliance with the Patient Protection Affordable Care Act, cafeteria plan rules under the Internal Revenue Code, HIPAA privacy concerns and COBRA compliance.

Her practice includes working with clients on the interpretation of tax compliance requirements and on planning and designing administrative processes to satisfy the plan's compliance requirements. She takes into consideration the client's infrastructure and goals when providing advice. For example, she has assisted clients with closely examining internal processes related to taxation and reporting retirement plan distributions (e.g. 1099-R, recovery of tax basis, loan treatments and rollovers).

Tiffany earned her Juris Doctorate, magna cum laude, from Indiana University Robert H. McKinney School of Law at Indianapolis, as well as her Master of Business Administration from the Kelley School of Business in Indianapolis in 2001. She was an associate editor for the Indiana Law Review. Tiffany joined Ice Miller full time in May of 2001 in the Employee Benefits Group. During June 2007, Tiffany began working as corporate counsel at ADP, Inc., a company that provides employee benefit outsourcing solutions, including benefit administration. She returned to Ice Miller in July of 2011 as a partner in the Employee Benefits Group.

Tiffany is licensed to practice law in the State of Indiana. - See more at: http://www.icemiller.com/people/tiffany-a-sharpley/#sthash.tYpbbKep.dpuf

John Zollo is an associate in the employee benefits group at Ice Miller's Indianapolis office. John Zollo's practice includes all areas of employee benefits law including qualified plans, nonqualified deferred compensation plans, welfare plans, DOL investigations and DOL and IRS correction programs. A significant portion of his practice is devoted to employee stock ownership plans including ESOP transactions, compliance and fiduciary counseling.

John graduated from the UC Davis School of Law in 2007 where he was an editor of the UC Davis Law Review and received the Witkin Award for Academic Excellence in Pension Law.

Before joining Ice Miller, he was a senior attorney at Chang, Ruthenberg & Long P.C. in Folsom, Calif.

He was admitted to The State Bar of California in 2007. - See more at: http://www.icemiller.com/people/john-zollo/#sthash.ntwgUV4I.dpuf

Malaika K. Caldwell is an associate in the employee benefits group at Ice Miller's Indianapolis office. Malaika concentrates her practice in public sector employee benefits, with a primary focus on governmental retirement and health systems on federal tax questions, compliance with federal law, fiduciary issues and plan design innovations. She also advises clients on all aspects of the Patient Protection and Affordable Care Act that affect employee benefit plans, including new coverage mandates and reporting requirements.

Malaika has considerable experience in governmental compliance programs with the Internal Revenue Services and Department of Labor compliance divisions, researching group health and welfare plans, and she regularly works with clients on a broad range of benefit issues, such as plan formation, design, administration and compliance advice.

Malaika relocated from Chicago, Ill. She received her Bachelors of Science in human resources management from Elmhurst College, in Elmhurst, Ill., in 2007. She earned her juris doctor, from John Marshall Law School in 2011 and a Masters of Law with a concentration in employee benefits in 2012. At John Marshall Law School she served as staff editor for Review of Intellectual Property Law (RIPL) and senior editor for the Southern Region of the National Black Law Students Association Law Journal.

She joined Ice Miller in July 2013 and is licensed to practice law in the state of Illinois. - See more at: http://www.icemiller.com/people/malaika-k-caldwell/#sthash.rmheOd5f.dpuf

APPENDIX B

REPRESENTATIVE PUBLIC FUND CLIENTS FOR EMPLOYEE BENEFITS GROUP

This list below reflects a representative list of some of the current public fund clients for whom the Employee Benefits Group currently provides services as tax and/or employee benefits counsel. The Employee Benefits Group has also completed a variety of other specific assignments for other public funds over the years. The "Types of Programs Offered" column was completed based only on the significant types of services Ice Miller provides to the Plan/Program.

Representative Clients	Contact Name, Title, Address and Phone Number	Types of Programs Offered	Nature of Work
Alaska Retirement Systems	Rebecca C. Polizzotto Assistant Attorney General Alaska Department of Law – Attorney General's Office Labor & State Affairs Section P O Box 110300 Juneau, AK 99811-0300 907-465-4166	DB Plans, Hybrid Plan, DC Plan, Group Health Insurance Plans and Group Life Insurance Plans, Health Care Trust	Plan qualification, HRAs, domestic partner issues, hybrid plans; determination letter filings; wellness program and incentive; fringe benefit and reimbursement taxation; private letter ruling filings
Colorado Fire and Police Pension Association	Kevin Lindahl General Counsel 5290 DTC Parkway, Suite 100 Greenwood Village, CO 80111 303-770-3772	DB Plan, Hybrid Plan, DC Plan	Establishment of Hybrid Plan and 401(h) account; determination letter filings; private letter ruling filing
Delaware Public Employees' Retirement System	Ann Marie Johnson Deputy Attorney General State of Delaware 820 N. French St., 6th Floor Wilmington, DE 19801 302-577-8423	DB Plan, Health Care Trust, DC Plan	Plan compliance; OPEB issues; determination letter filings; private letter ruling filings

Representative Clients	Contact Name, Title, Address and Phone Number	Types of Programs Offered	Nature of Work
Georgia Municipal Employees' Benefit System	Angela Nixon Legal Counsel 201 Pryor Street, SW Atlanta, GA 30303 678-686-6236	DB Plan, DC Plan, Deferred Compensation Plan, Health Care Trust, Group Health Insurance	Establishment of volume submitter DB and DC plans; establishment of 457 plan; opinion letter filings; private letter ruling filings
Indiana State Police Retirement System	Maj. Col. Phil Parker Indiana Government Ctr. N., N340 100 North Senate Avenue Indianapolis, IN 46204 317-232-8348	DB Plan, Group Health Insurance Plan, Group Life Insurance Plans, Duty Disability Benefits, 401(h) Account	Plan compliance; determination letter filings; health care funding; DROP design; legislative drafting; regulatory drafting; plan preparation; board briefings; legislative testimony; HIPAA privacy and security; private letter ruling filing
Indiana Public Retirement System	Anthony Green Chief Legal and Compliance Officer 1 North Capitol, Suite 001 Indianapolis, IN 46204 317-234-7319	DB Plan, Group Health Insurance Plan	Plan compliance; determination letter filings; private letter ruling filings; legislative drafting; regulatory drafting; investment policies; alternative investments; board briefings; legislative testimony; governance restructuring
Iowa Public Employees' Retirement System	Gregg A. Schochenmaier General Counsel; Manager, Legal & Communications 7401 Register Drive P.O. Box 9117 Des Moines, IA 50306-9117 515-281-0054	DB Plan, Duty Disability Benefits	Plan compliance; determination letter filings; private letter ruling filings; legislative drafting; regulatory drafting; board briefings; governance analysis; plan assessment appeals; cafeteria plan requirements; accrued benefits analysis

Representative Clients	Contact Name, Title, Address and Phone Number	Types of Programs Offered	Nature of Work
Kansas Public Employees Retirement System	Laurie McKinnon General Counsel Kansas Public Employees' Retirement System 611 S. Kansas Avenue Suite 100 Topeka, KS 66603-3803 (785) 296-6059	DB Plan	Plan compliance; determination letter filings; private letter ruling filings; legislative drafting; regulatory drafting; board briefings; legislative testimony; UBIT analysis; accrued benefits analysis; drafting and implementation of cash balance plan
Kentucky Retirement Systems	William Thielen Executive Director Perimeter Park West 1260 Louisville Road Frankfort, KY 40601-6124 (502) 696-8455	DB Plans, Group Health Insurance Plans, Duty Disability Benefits, Health Care Trust, 401(h) Account	Investment practices audit; governance audit; plan compliance; accrued benefits analysis; private letter ruling filings; consultation on GASB requirements; determination letter filings; COBRA compliance; Medicare Part D; legislative drafting; HRAs; HIPAA privacy and security; vendor contracting; bankruptcy
Maine Public Employees Retirement System	John Milazzo, Chief Deputy Executive Director and General Counsel 46 State House Station Augusta, ME 04333-0046 (207) 512-3105	DB Plans, DC Plan	Investment policy review; transition management and investment management contract negotiation and drafting; determination letter filings
Massachusetts Public Employees' Retirement Administration Committee	John Parsons General Counsel 5 Middlesex Avenue, 3rd Floor Somerville, MA 02145 (617) 666-4446, 904	DB Plans	IRS Compliance Program for 103 separate plans; determination letter filings for 103 separate plans; private letter ruling filing
Massachusetts Teachers' Retirement Board	James Salvie General Counsel One Charles Park, 2nd Floor Cambridge, MA 02142-1206 617-679-6888	DB Plan	1099-R compliance; private letter ruling filings; member briefings; service purchase materials; determination letter filings

Representative Clients	Contact Name, Title, Address and Phone Number	Types of Programs Offered	Nature of Work
Municipal Employees Retirement System of Michigan	Thomas Petroni Chief General Counsel 1134 Municipal Way Lansing, MI 48917 517-703-9030	DC Plan, DB Plan, Group Health Insurance Plans, Employer Funded Reimbursement Accounts, Leave Conversion Credits, Health Care Trust	Plan compliance; determination letter filings; private letter ruling filings; establishment of 401(h) account; establishment of QEBA; establishment of volume submitter for Tribal Governmental and non-profit organizations; establishment of 501(c)(25) entity; work on health care programs
Montana Public Employees' Retirement Association	Melanie Symons Chief Legal Counsel 100 N. Park Ave., Suite 200 Helena, MT 59601 406-444-9174	DB Plans, DC Plan, 457(b) Plan, Group Trust	Plan compliance; determination letter filings; fiduciary training; private letter ruling filings; establishment of 457 plan and defined contribution plan; voluntary compliance filing with IRS; taxation disability project; group trust filing
Montana Teachers Retirement System	Shawn Graham Executive Director P.O. Box 200139 Helena, MT 59620-0139 406-444-3134	DB Plan	Plan compliance; determination letter filings; private letter ruling filing
New Jersey Division of Pensions and Benefits	Susan K. Fischer Esq. Assistant Attorney General New Jersey Department of Law and Public Safety Division of Law 25 Market Street P.O. Box 112 Trenton, NJ 08625-0112 (609) 292-1676	DB Plans, DC Plans	Plan compliance; determination letter filings for nine plans; operational compliance project; private letter ruling filing
New Mexico Public Employees' Retirement Association	Susan Pittard General Counsel 1120 Paseo De Peralta Santa Fe, NM 87501 505-827-4859	DB Plans	Plan compliance in specific subjects; determination letter filings

Representative Clients	Contact Name, Title, Address and Phone Number	Types of Programs Offered	Nature of Work
Oklahoma Public Employees' Retirement System	Thomas Spencer Executive Director P.O. Box 53007 Oklahoma City, OK 73152-3007 405-858-6701	DB Plans, DC Plan, Deferred Compensation Plan, 401(h) Account	Determination letter filings for 3 plans; private letter ruling filings; establishment of DC plan; establishment of 457 plan; plan compliance
Oregon Public Employees Retirement System	Steven P. Rodeman Deputy Director 11410 SW 68th Parkway P.O. Box 23700 Tigard, OR 97281-3700 503-603-7695	DB Plan, Hybrid Plan, 401(h) Account	Determination letter filings; consultation on hybrid plan design; 415 analysis; 401(a)(9) analysis; line-of-duty benefits; taxation issues
Teacher Retirement System of Texas	Mary Chang Assistant General Counsel 1000 Red River Street Austin, TX 78701-2698 (512) 542-6417	DB Plan, Group Health Insurance Plans, Employer Funded Reimbursement Accounts	Plan qualification issues; 415 analysis; 401(a)(9) analysis; HRA and MSA programs; health care issues; IRS compliance regarding retirement and health plans; plan compliance; retiree health guidance; determination letter filings; Medicare Part D; HIPAA privacy and security; HDHP/HSA program
Utah Retirement Systems	Craige D. Stone Director, Defined Contribution Savings Plan 560 East 200 South Salt Lake City, UT 84102-2099 801-366-7412	DC Plan, Deferred Compensation Plan	Consultation on 457(b) and 401(k) plan compliance; determination letter filings; private letter ruling filing

Representative Clients	Contact Name, Title, Address and Phone Number	Types of Programs Offered	Nature of Work
Washington Department of Retirement Systems	Anne Hall Senior Counsel Washington State Attorney General's Office 7141 Cleanwater Drive SW P.O. Box 40108 Olympia, WA 98504-0108 360-586-9037	DB Plans and DC Components	Determination letter filings for 11 plans, member briefings; 1099-R compliance; litigation support; compliance filing with IRS

APPENDIX C

EXAMPLE OF ONE SECTION OF CHART FOR A WINDSOR PROJECT

Issue	Primary Affected System Provisions/ State Law/ Administrative Rules	Federal Law Requirement/ Provisions	Potential Results	Options	Potential Risks Include
ROLLOVERS					
Rollover Provisions. Under federal law, the "spousal rollover IRA" is more favorable than the traditional "inherited IRA" that would apply to non-spouse beneficiaries.	N/A (pure federal tax benefit)	IRC § 408; IRC § 402(f) rollover notice; Rev. Ruling 2013-17	Under federal guidance, spousal rollover IRA treatment is available to opposite-sex spouses and same-sex spouses who validly entered into marriage in jurisdictions that authorize same-sex marriage (state of celebration).	Outcome is purely federal tax driven and plan must follow IRS guidance.	IRS
Definition of "Distributee" for direct rollovers includes surviving spouse and former spouse who is the alternate payee under a QDRO			Under federal guidance, "Distributee" for direct rollovers includes opposite-sex spouses and same-sex spouses who validly entered into marriage in jurisdictions that authorize same-sex marriage (state of celebration).	Outcome is purely federal tax driven and plan must follow IRS guidance.	IRS

IceMiller
LEGAL COUNSEL

One American Square | Suite 2900 | Indianapolis, IN 46282-0200

July 8, 2014

WRITER'S DIRECT NUMBER: (317) 236-2413
DIRECT FAX: (317) 592-4616
INTERNET: BRAITMAN@ICEMILLER.COM

Ms. Fay Kopp
DARIO Deputy Executive Director
NDTFFR Chief Retirement Officer
North Dakota Retirement & Investment Office
North Dakota Teachers' Fund for Retirement
PO Box 7100
Bismarck, N.D. 58507-7100

Mr. Sparb Collins
Executive Director
North Dakota Public Employees
Retirement System
400 East Broadway Avenue
Suite 505
P.O. Box 1657
Bismarck, ND 58502-1657

RE: Letter of Engagement of Ice Miller LLP

Dear Ms. Kopp and Mr. Collins:

Thank you for allowing us the opportunity to work with both of you, as well as the North Dakota Public Employees' Retirement System ("PERA") and the North Dakota Teachers' Fund for Retirement ("TFFR"). PERA and TFFR will be collectively referenced in this letter as "Systems". Please take a moment to review this letter to confirm that we have a mutual understanding regarding the scope of this relationship, and let us know if there is anything the Systems do not understand or would like to discuss. Once you and the Systems are comfortable with the letter, please sign and return a copy to us.

Nature and Scope of the Relationship

The Systems have retained ICE MILLER LLP to provide legal services and representation with respect to the United States Supreme Court *Windsor* decision and resulting IRS guidance, and action that may be needed to amend plans under the Systems in order to comply with the decision and IRS guidance.

In addition, PERA has retained ICE MILLER LLP to provide legal services and representation with respect to the Affordable Care Act ("ACA") and related regulations and other guidance from Federal agencies (e.g., IRS, HHS, etc.), and action that may be needed to amend plan(s) under PERA in order to comply with the ACA and related regulations and guidance.

The Systems are responsible for paying our statements for services and expenses. The Systems are also responsible for keeping us informed with complete and accurate information, documents and other communications relevant to the subject matter of our representation or otherwise requested by us.

Communication

Unless the Systems instruct otherwise in writing, we may communicate using unencrypted e-mail, facsimile transmission and cellular telephone with the understanding that these methods carry an inherent risk of interception. By signing and returning this engagement letter, the Systems confirm in writing that it understands these risks and consents to our communicating in this manner.

Fees

We will charge fees based upon the time expended and other factors applicable to legal fees that are specified by applicable professional rules and standards. Our fees are based on our hourly rates as applied to the amount of time that we expend in providing services. Our hourly rates for work performed by our attorneys, as established effective January 1, 2014 are attached (see Fee Schedule). Thereafter, these rates are subject to change as of January 1, with 30 days' notice. As you will see, we are offering the Systems a 10% discount on our rates.

Payment of our fees and other charges is in no way contingent on the outcome of any matter. In addition to fees that we charge for our legal services, we also charge for certain ancillary items. Such charges may include long distance telephone charges, photocopying, facsimile transmission, computer research, mileage, travel expenses and other similar charges specifically applicable to the engagement. Our charges for such ancillary services are pursuant to a schedule of charges, as the same is revised from time to time. A copy of current charges is available upon request.

Billing Procedures

Unless we agree to an alternative billing arrangement, the Systems will receive a statement on a monthly basis for services rendered, and for costs and other charges posted to the account, in the prior month. Payment is due upon receipt of our billing statement or within 30 days thereafter. If the account becomes more than 30 days past due, our Billing and Collection Committee will decide whether additional legal work will be performed while the account remains past due, taking into account obligations we owe under applicable professional conduct rules. While we typically do not charge interest on past due amounts, we reserve the right to charge interest on any amount invoiced that remains unpaid after 30 days at the rate of 1% per month until paid in full, plus all costs of collection (including reasonable attorneys' fees). Any questions or disagreements should be brought to our attention in writing within 60 days of the billing date.

Modification/Assignment

Modification of this Agreement shall be in writing only. The Agreement may not be assigned.

Response to Audit Inquiries

If the Systems ask that we do so, we will respond to the Systems' auditors concerning certain "loss contingencies" as defined by accounting standards by preparing a letter to the Systems' auditors. Absent special circumstances, our current fee structure for the preparation of these letters is a minimum of $200 and a maximum of $500, depending on the extent and number of any matters reported. However, the fee may exceed $500 if there are many matters to be reported upon, or if the letter requires extensive substantive attention to disclosure or other related issues. This charge will appear on the statement as a line item for "Services rendered in connection with preparation of response to audit inquiry."

Termination or Withdrawal

Both parties have the right to terminate any engagement at any time after providing reasonable advance written notice, and our withdrawal or termination is further subject to applicable rules of professional responsibility. Otherwise, this representation will terminate (a) once the specific services covered within the scope of the representation have been completed, or (b) if the engagement is open-ended without any specific services being described, when more than six months have elapsed from the last time the Systems requested and we furnished legal services to the Systems. We are not obligated to provide advice or other legal services concerning this representation to the Systems after our representation has terminated. After completion of a matter in which we have represented the Systems, changes may occur in the applicable laws or regulations that could have an impact upon future rights and liabilities. Even though we may send the Systems' newsletters or the like after the date of termination of our engagement, we will have no responsibility to provide the Systems with updates or advice concerning any changes in the law or regulations or future legal developments on any matter, including those matters that may have been the subject of a prior representation, unless we have expressly agreed that we will provide this service.

Certain Limitations

Any opinions or views, formal or informal, that we may express to the Systems or to third parties about the outcome of a legal matter are only our best professional estimates. Those opinions or views are necessarily limited by our knowledge of facts at the time that we express them, and the law and regulations that are then in effect.

Acceptance

We hope this letter is helpful and accurately states the scope of the agreed upon representation. We intend to provide legal services based on this letter, and will assume that this letter accurately reflects our mutual agreement, unless the Systems promptly notifies us in writing to the contrary. This letter and the Special Assistant Attorney General Appointment Agreement represent the entire Agreement of the parties.

If you have any questions or wish to discuss any portion of this letter, please call me. Otherwise, please confirm for our records the Systems' acceptance of these terms and conditions by signing this letter in the space provided and returning the same to me.

Sincerely yours,

ICE MILLER LLP

Mary Beth Braitman

Mary Beth Braitman

cc: Ms. Jan Murtha

Acknowledged and Agreed;

Date: 07-09-14 By: Fay Kopp
Ms. Fay Kopp

Date: 07-09-14 By: Sparb Collins
Mr. Sparb Collins

Attachment: Fee Schedule

FEE SCHEDULE

Attorney	Current 2014 Standard Hourly Rate	2014 10% Discount
Mary Beth Braitman, Partner	$575.00	$517.50
Robert Gauss, Partner	$450.00	$405.00
Terry A.M. Mumford, Partner	$575.00	$517.50
Chris Sears, Partner	$450.00	$405.00
Tiffany A. Sharpley, Partner	$450.00	$405.00
Eric Dawes, Actuary	$480.00	$432.00
Lisa Erb Harrison, Of Counsel	$420.00	$378.00
Malaika Caldwell, Associate	$230.00	$207.00
John Zollo, Associate	$360.00	$324.00
Raven Merlau, Associate	$230.00	$207.00
Shalina Schaefer, Associate	$320.00	$288.00
Russell Haver, Paralegal	$220.00	$198.00

IceMiller
LEGAL COUNSEL

build insights

April 14, 2014
Mary Beth Braitman, Malaika K. Caldwell, Robert L. Gauss, Lisa Erb Harrison, Terry A.M. Mumford, Tiffany A. Sharpley

Governmental Plans Alert: IRS Issues Guidance Regarding Application Of The Windsor Decision To Qualified Retirement Plans

NOTE: This bulletin is tailored for government retirement systems and government plan administrators. There are significant differences in the impact of Notice 2014-19 on government plans and ERISA plans. If you have an ERISA-covered plan, please do not refer to this Notice. If you have any questions or comments concerning the effect of this Notice on your plan, please contact one of our employee benefits professionals.

On April 4, 2014, the Internal Revenue Service (IRS) issued Notice 2014-19 (Notice) regarding plan amendments that are needed to implement the decision in *United States v. Windsor*, 570 U.S. _____, 133 S. Ct. 2675 (2013) and Revenue Ruling 2013-17, 2013-38 I.R.B. 201 for retirement plans that are qualified under Internal Revenue Code (IRC) Section 401(a). The United States Supreme Court held in *Windsor* that Section 3 of the Defense of Marriage Act (DOMA) was unconstitutional. This holding by the Court provided same-sex spouses who were married in a state that recognizes same-sex marriage the same treatment as opposite-sex spouses for purposes of federal law. In Revenue Ruling 2013-17 the IRS ruled that for federal law purposes, it would recognize same-sex marriages based upon the state of "celebration," rather than the state of "domicile," and that the IRS would also recognize same-sex marriages performed in a foreign jurisdiction.

As a result of *Windsor* and Revenue Ruling 2013-17, governmental plan administrators in states that recognize same-sex marriage, as well as in states that do not, have to determine the impact on plan operation. For qualified governmental plans, the areas of greatest impact are likely to be (1) the treatment of eligible rollover distributions to same-sex spouses under IRC Sec. 401(a)(31); (2) the treatment of joint/survivor options for same-sex spouses under IRC Sec. 401(a)(9); and (3) the testing of joint/survivor benefits for same-sex spouses under IRC Sec. 415(b). In some plans, for example those with QDROS and hardship distributions, there are other considerations.

The Notice addresses a number of important points regarding the *Windsor* decision, including when plan amendments may be needed, applicable plan amendment deadlines, and retroactive application of the *Windsor* decision as related to retirement plans. Under the Notice, plan administrators have a deadline by which plan amendments must be adopted, if any are needed. The Notice also makes it clear that qualified retirement plans must be operated in a manner that is consistent with the *Windsor* decision as of **June 26, 2013**, and with Revenue Ruling 2013-17 as of **September 16, 2013**.

Need to Amend

The Notice explains in a question and answer format the IRS' view of what type of plan provisions may require an amendment to comply with *Windsor* and Revenue Ruling 2013-17. The Notice states that a plan must be amended in order to be in compliance with IRC Section 401(a) if the plan references section 3 of DOMA when defining a marital relationship or is otherwise inconsistent with the *Windsor* decision, Revenue Ruling 2013-17, or Notice 2014-19. If a plan utilizes terms such as "spouse," "legally married spouse" or "spouse under Federal law," without distinction between a spouse of the same-sex or opposite-sex, such a plan is probably not required to be amended for purposes of federal law compliance. Plans should consider whether the terms used in its structure, such as "spouse under state law"

or "opposite sex spouse" would prevent application of the required federal law provisions, such as rollover rights, 401(a)(9) compliance and 415(b) testing. There are no amendments required by this Notice that would change the fundamental state law benefit structure, such as certain opposite sex survivor benefits. Obviously, issues with regard to the benefit structure will depend on state law and potentially resolution of pending court cases.

A plan administrator could decide that, even if an amendment to the definitions of certain terms is not absolutely needed, a direction to recognize same-sex marriages in certain plan situations may be helpful to vendors or others who handle daily administration.

Amendment Deadline for Governmental Plans

The IRS recognized the additional time it may take for a governmental qualified plan to be amended to be in compliance with the *Windsor* decision and/or the related IRS guidance. The IRS stated that an amendment for a governmental plan "need not be adopted before the close of the first regular legislative session of the legislative body with the authority to amend the plan that ends after December 31, 2014." For example, a state plan where the state legislature meets annually from January to April would have until the end of the January to April 2015 session to get an amendment enacted. For a municipal plan where the legislative body meets monthly (for example), the amendment deadline could be in January 2015. In any event, the amendment (if needed) should be adopted prior to the deadline.

Amending Plans to Adopt the *Windsor* Decision Prior to June 26, 2013

While plan administrators must timely implement the *Windsor* decision no later than June 26, 2013, and Revenue Ruling 2013-17 no later than September 16, 2013, plans may also be amended to adopt the *Windsor* decision as of a date before June 26, 2013. It should be noted that amending plans to recognize same-sex spouses on a date prior to June 26, 2013, will require consideration of how to deal with the retroactive change. For example, if a retired member was not allowed to select a 100% joint/survivor option for a same-sex spouse prior to June 26, 2013, and the plan sponsor chooses to later amend the plan to recognize same-sex marriages back to January 1, 2013 (for example), the plan would need to retroactively give the member retiring on or after January 1, 2013 a new election for a 100% joint/survivor option. In that case, the plan could then provide for retroactive payment adjustments to recognize the new election.

Action Steps

- Review the plan document to determine if plan amendments are needed and the deadline for adoption of any required plan amendment under the Notice.
- Review forms and other plan materials provided electronically or in paper form to determine consistency with *Windsor* and IRS guidance.
- Provide appropriate training for benefit counselors on federal law changes.
- Promulgate necessary and discretionary amendments on a timely basis.

If you have any questions or comments regarding the information contained in this Notice, do not hesitate to contact one of our employee benefit professionals.

This publication is intended for general information purposes only and does not and is not intended to constitute legal advice. The reader should consult with legal counsel to determine how laws or decisions discussed herein apply to the reader's specific circumstances.

Circular 230 Disclosure
Except to the extent that this advice concerns the qualification of any qualified plan, to ensure compliance with recently-enacted U.S. Treasury Department Regulations, we are now required to advise you that, unless otherwise expressly indicated, any federal tax advice contained in this communication, including any attachments, is not intended or written by us to be used, and cannot be used, by anyone for the purpose of avoiding federal tax penalties that may be imposed by the federal government or for promoting, marketing, or recommending to another party any tax-related matters addressed herein.

LETTER OPINION
2013-L-06

December 12, 2013

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

Dear Mr. Riha:

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

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

ANALYSIS

I.

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

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

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

State statute contains similar restrictions:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A state Representative also testified before the committee:

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

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

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

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

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

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

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

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

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

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

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

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

II.

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

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

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[15] Pub. L. 104-199, 110 Stat. 2419 (Sept. 21, 1996).

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

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

III.

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

Sincerely,

Wayne Stenehjem
Attorney General

nrm/slv/vkk

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

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

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **July 17, 2014**

SUBJ: **GASB 67/68 IMPLEMENTATION UPDATE**

Staff from TFFR, PERS, and the State Auditor's Office have continued meeting to develop a collaborative plan to implement the new GASB pension reporting standards, and to educate employers and stakeholder groups. (See May 2014 TFFR Board materials.) We are continuing to work with TFFR and PERS plan actuaries and auditors to assist and help us understand the requirements. As I have mentioned at previous meetings, while GASB has provided guidance for the new accounting and financial reporting requirements, there are many practical implementation issues that are still being identified. More discussion, clarification, and decisions need to be made.

At the May 15, 2014 meeting, the TFFR Board approved the April 24, 2014 proposal from Eric Berman, Eide Bailly, to conduct employer training and provide consulting services on GASB 67/68 implementation efforts. This training is being done in conjunction with PERS.

On June 26, 2014, TFFR, PERS, and the State Auditor's Office hosted a GASB 68 working group meeting at the Bismarck Civic Center. There were over 40 representatives from the State, school districts, political subdivisions, auditors, and other stakeholder groups present. About 10 staff from TFFR and PERS also attended the meeting. A copy of the presentation is enclosed. Overall, we feel the meeting went well. We are surveying meeting attendees for feedback and suggestions which will be incorporated into future training. GASB training for all TFFR and PERS participating employers and their auditors is scheduled for November 18, 2014.

Enclosure

North Dakota Teachers' Fund for Retirement
North Dakota Public Employees Retirement System
North Dakota State Auditor's Office

GASB-68 Implementation Meeting

June 2014

EideBailly®

CPAs & BUSINESS ADVISORS

Today's Agenda

- Overview and Setting Expectations
- The Basic Concepts of Defined Benefit Plans as They Apply to the TFFR / PERS
- The Basics of GASB-67, 68 and 71
- Decisions that are being made

These seminar materials are intended to provide the seminar participants with guidance in accounting and financial reporting matters. The materials do not constitute, and should not be treated as professional advice regarding the use of any particular accounting or financial reporting technique. Every effort has been made to assure the accuracy of these materials. Eide Bailly LLP and the author do not assume responsibility for any individual's reliance upon the written or oral information provided during the seminar. Seminar participants should independently verify all statements made before applying them to a particular fact situation, and should independently determine consequences of any particular technique before recommending the technique to a client or implementing it on the client's behalf.

Overview and Setting Expectations for Today

EideBailly®

CPAs & BUSINESS ADVISORS

1. CHECK OUR MISCONCEPTIONS AND MISINFORMATION AT THE DOOR

2. EVERYONE PARTICIPATE

3. NO QUESTION IS A “BAD” QUESTION

4. WE CAN SPEND AS LONG AS YOU WANT ON ANY ASPECT OF DEFINED BENEFIT PENSIONS

5. NO DEBITS AND CREDITS!

6. TAKE AWAY AT LEAST ONE THING THAT WILL HELP YOU (OR SOMEONE YOU REPORT TO) MAKE BETTER DECISIONS

7. THERE MAY BE THINGS I / WE DON’T KNOW

8. UNDERSTAND THAT THERE MAY BE MORE THAN ONE ANSWER

9. DETAILS EVEN FROM GASB ARE STILL EVOLVING

10. REALIZE THAT 4 HOURS IS JUST SCRATCHING THE SURFACE…

The Basic Concepts of Defined Benefit Plans

As they Apply to the North Dakota Teachers' Fund for Retirement

&

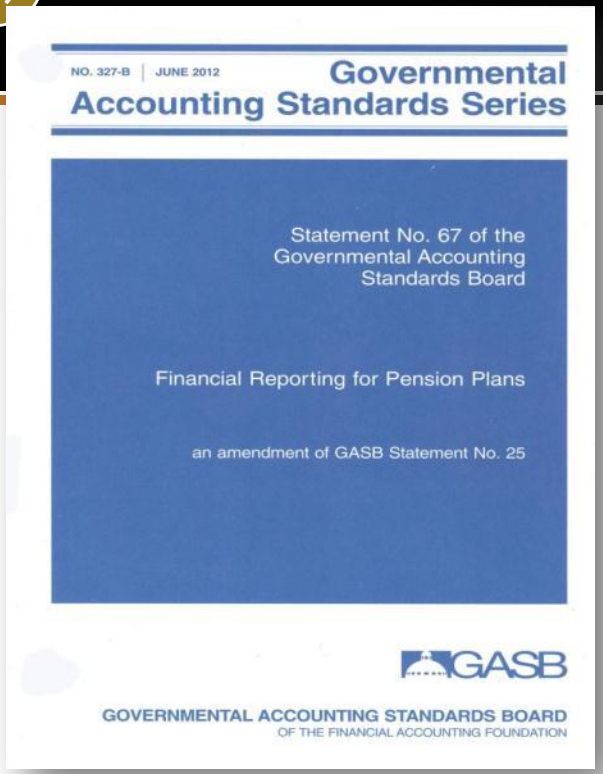
The North Dakota Public Employees Retirement System

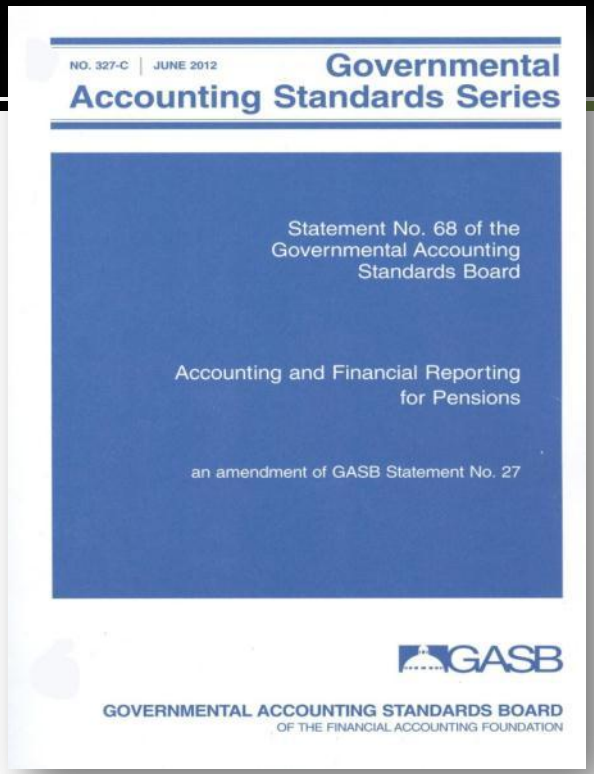
EideBailly®

FINANCIAL SERVICES

Some Basic Definitions of Defined Benefit Plans – just an introduction

- **Single Employer Plan**
  - A plan that is only open to one employer or multiple departments /functions within one employer
- **Agent Multiple – Employer Plan**
  - A plan that includes more than one employer
  - Assets pooled for investment purposes
  - Separate account exists for *each* employer
  - Employer's assets can *only be used to pay for that employer's benefits* (and no others)
- **Cost Sharing Multiple – Employer Plan – PERS Main / Law Enforcement / TFFR**
  - A plan that includes more than one employer
  - Assets and liabilities are pooled
  - All assets are available to pay for all benefits





Statement 67
Financial Reporting for Pension Plans

Statement 68
Accounting and Financial Reporting for Pensions

Statement 71 (not pictured)
Pension transition for contributions made subsequent to the measurement date

Overview of the New GASB Requirements

- GASB 67 provides for accounting with respect to Plans (replaces GASB 25)
  - "Plans" in this case are PERS and TFFR
  - Effective for fiscal years beginning after June 15, 2013
- GASB 68 provides for financial reporting by employers (replaces GASB 27)
  - "Employers" are the entities making the contributions (e.g., State, Cities, Counties, School Districts, etc.)
  - Effective for fiscal years beginning after June 15, 2014
- Net Pension Liability reported on each employer's balance sheet and in each Plan's notes to the financial statements
  - Entry age cost method
  - Market value of assets
  - Blended discount rate
- Accounting and financial reporting divorced from contribution requirements
- Annual pension expense (for employers) is essentially equal to change in Net Pension Liability during the year, with deferrals of certain items

The New GASB Revolution

- **Effective dates**
  - For plan reporting: plan years beginning after June 15, 2013 (2013/2014 for fiscal year plans or 2014 for calendar year)
  - For employer reporting: fiscal years beginning after June 15, 2014 (2014/2015 for fiscal year employers or 2015 for calendar year)

GASB Objectives and Goals

Focus on FINANCIAL REPORTING not operations

- GASB establishes accounting and financial reporting standards, not funding policies
- Focus on pension obligation, changes in obligation, and attribution of expense
- **Therefore – converting from modified cash to accrual basis**

Assume Governments Last Longer than 1 year Unlike Businesses

- Cost of services to long-term operation
- "Interperiod equity" matches current period resources and costs

Use Federal Guidance (US DOL / SSA) on Who is an Employee and Who they Work For

- Employer incurs an obligation to its employees for pension benefits
- Transaction is in context of a career-long relationship
- **Therefore – EMPLOYER has reporting and not plan**

The GASB Revolution

- **FOUR Major Focus Areas** in the new standards
  1. Placing the Net Pension Liability on the Balance Sheet
  2. Decoupling Expense from Funding
  3. Accounting for Cost-Sharing Plans (n/a for single employer)
  4. Expanding Disclosure Information (Notes & RSI)
- Timing of Measurements, Effective Dates
- Implementation Guides and Audit Guidelines

Major Focus Area #1 – EMPLOYERS
Net Pension Liability Reported on Balance Sheet

- Net Pension Liability (NPL)
  - Total pension liability (TPL) minus plan assets at market value ("plan net position")
    - TPL uses new "blended" discount rate and "Entry age" cost method
    - Similar to Unfunded Actuarial Accrued Liability (UAAL) but using market assets, not "smoothed" assets
    - Note 5-year asset smoothing still allowed (in determining pension expense), but reported separately
    - NPL must be reported on the employer's "balance sheet"
  - Currently, UAAL is reported in the Required Supplementary Information (RSI) of the PLAN
  - Currently, only the Net Pension Obligation (NPO) is reported on the balance sheet, of the PLAN (not reported if $0)
    - Cumulative difference between annual required contribution (ARC) and actual contributions

Net Pension Liability Reported on Financials

- Discount rate is based on projected benefits, current assets, and projected assets for current members
  - Projected assets include contributions on behalf of current members and **exclude** contributions intended to fund the service cost for future employees
- For projected benefits that are covered by projected assets
  - Discount using the long-term expected rate of return on assets
  - PERS/TFFR long-term rate of return is 8%
- For projected benefits that are **not** covered by projected assets
  - Discount using yield on 20-year AA/Aa tax-exempt municipal bond index
  - As of June 30, 2013, rate was 3.92%
- Solve for a single rate that gives the same total present value
  - Use that single equivalent rate to calculate the Total Pension Liability (TPL)

Implications:

- Both PERS and TFFR can use the 8% long-term rate

Net Pension Liability –June 30, 2013 Per Segal (in thousands) (*estimated*)

	PERS Main	TFFR
Total Pension Liability at 8.00%	$2,633,572	$2,997,139
Net Plan Position (i.e., MVA)	1,899,459	1,839,584
Net Pension Liability (NPL)	734,113	1,157,555
Sensitivity to changes in discount rate		
• 1% decrease (7.00%)	$1,050,948	$1,538,142
• Current discount rate (8.00%)	734,113	1,157,555
• 1% increase (9.00%)	522,938	833,648

- NPL is calculated for each Plan in total
- Each employer is assigned a share of the NPL

Major Focus Area 2 – EMPLOYERS
Decoupling Expense from Funding

- **No change will occur in contribution rates *solely* due to implementation of GASB-68**
- Currently, pension expense is based explicitly on an actuarially determined funding requirement (largely based on rates)
  - The ARC, which is the "annual required contribution"
    - Even though is not required to be contributed!
  - Based on established practices for managing contribution volatility
    - Asset smoothing and UAAL amortization
  - The ARC served as a de facto funding standard
- New GASB pension expense is the change in NPL each year, with deferred recognition of only certain elements
  - ARC Specifically not intended to be a funding target or standard

New Pension Expense Components

- Changes in Total Pension Liability that are recognized (i.e., expensed) immediately—no deferrals allowed
  - Service cost – pensionable compensation x rate
  - + Annual interest on the TPL
  - - Projected investment returns over the year
  - + / - All plan amendments
- Immediate recognition of all plan amendments, whether for actives or retirees
  - Probably different from funding
- Changes in assumptions / demographics *may* be immediate expense *or* amortized over remaining service of covered employees

Summary of New Pensions Expense Components – a great cheat sheet

- Changes in the employer's Net Pension Liability will be recognized in pension expense more quickly – could be confusing

	Current Standards		New Standards	
Source of Change in the Net Pension Liability	**Expense**	**Deferral**	**Expense**	**Deferral**
Service Cost	Immediate	None	Immediate	None
Interest on the TPL	Immediate	None	Immediate	None
Projected Investment Earnings	Immediate	None	Immediate	None
Changes in Benefit Terms	Initial period amount	Amortization over a period up to 30 years (closed or open)	Immediate	None
Changes in Assumptions			Initial period amount	Expense over average remaining service period of actives and inactives
Differences between Assumed and Actual Economic and Demographic Factors				
Differences between Projected and Actual Earnings				Expense over 5-year closed period
Other Changes in the NPL			Immediate	None

What Does it All Mean?

- Fiscal folk in the room will have some explaining to do to decision – makers
  - Decision – makers are used to compensation x statutory rate OR rate per employee
  - Budget and funding only a component of expense
  - **Suggestion – use the following slide to insert a schedule in MD&As to translate from annual contributions to annual expense as follows…**

A *Possible* Way to Translate for Decision-makers

Annual Contributions as determined by Actuary	**$x,xxx,xxx**
Adjustments for annual amortizations of:	
Differences between actual and expected experience	
Changes in assumptions	
Differences between projected and actual earnings on plan investments	
(COST SHARING ONLY) Changes in proportion and differences between contributions and proportionate share of contributions	
Contributions subsequent to measurement date recognized as deferred outflows of resources (GASB-71)	
Other	
Pension Expense	**$x,xxx,xxx**

Pension Expense for FYE June 30, 2013 per Segal (in thousands) (*estimated*)

	PERS Main	TFFR
Service cost	$80,446	$60,724
Interest on the Total Pension Liability	191,120	222,712
Recognized portion of current-period difference between expected and actual experience	4,545	614
Member contributions	(49,371)	(53,825)
Projected earnings on plan investments	(134,311)	(132,578)
Recognized portion of current-period difference between projected and actual earnings on plan investments	(18,149)	(17,525)
Administrative expense	2,020	1,624
Recognition of deferred outflows of resources	0	0
Recognition of deferred inflows of resources	0	0
Pension expense for FYE 6/30/2013	$76,300	$81,746

Major Focus Area 3 – **EMPLOYERS**
Accounting for Cost-Sharing – **everyone will change in the room**

- Current standards are simple
  - Pension expense is equal to the statutorily required contribution
    - No “ARC” on financial statements
  - Balance sheet only presents the sum of the difference (if any) since 1988 between the statutorily required contribution and the actual contribution – currently $0
  - Unfunded actuarial accrued liability is not reported at all on employers’ statements

Accounting for Cost-Sharing

- Recognize <u>proportionate share</u> of *the plan's* total
  - Net Pension Liability
  - Pension Expense
  - Deferred Positions

NONE of these are to be reported on the plan financial statements due to employer : employee exchange of work for compensation

Example Schedule of Cost Sharing Proportion

Based on prior covered payroll

EXAMPLE COST SHARING PENSION PLAN

Schedule of Employer Allocations

June 30, 2015

Employer/ Nonmployer (special funding situation)	2015 Actual Employer Contributions	Employer Allocation Percentage
State of Example	$ 2,143,842	38.9 %
Employer 1	268,425	4.9
Employer 2	322,142	5.8
Employer 3	483,255	8.8
Employer 4	633,125	11.5
Employer 5	144,288	2.6
Employer 6	95,365	1.7
Employer 7	94,238	1.7
Employer 8	795,365	14.4
Employer 9	267,468	4.9
Employer 10	267,128	4.8
Total	$ 5,514,641	100.0

STAY TUNED FOR AUDIT DETAILS OF THIS

Impact on Employers - Summary

- Each employer must disclose their proportionate share of:
  - Net Pension Liability (Asset)
  - Pension expense
  - Deferred outflows of resources and deferred inflows of resources related to pensions
- For both PERS Main / LE Plan and TFFR, the proportionate share can be allocated based on covered payroll
- For this hypothetical exercise, we consider the following two employers for PERS Main:
  - Employer 1, a relatively large employer (approximately 2% of total payroll)
  - Employer 2, a small employer (approximately 0.03% of total payroll)
- In addition, the State's portion of the PERS Main System is 56%
- For TFFR, we consider two sample school districts:
  - District 1, a large employer (approximately 10% of total payroll)
  - District 2, a small employer (approximately 1% of total payroll)

Proportionate Share of NPL – PERS Main System per Segal (in thousands) (estimated)

	Total	State Employees	Employer 1	Employer 2
Payroll	$865,868	$486,381	$21,224	$247
NPL/Proportionate Share	734,113	412,371	17,995	210
Sensitivity to changes in discount rate				
• 1% decrease (7.00%)	$1,050,948	$590,345	$25,761	$300
• Current discount rate (8.00%)	734,113	412,371	17,995	210
• 1% increase (9.00%)	522,938	293,748	12,818	143
Pension Expense/Proportionate Share	$76,300	$42,860	$1,870	$22
Deferred Outflows of Resources	21,771	12,230	534	6
Deferred Inflows of Resources	72,597	40,780	1,780	21

Proportionate Share of NPL – TFFR per Segal (in thousands) (estimated)

	Total	District 1	District 2
Payroll	$550,000	$55,000	$5,500
NPL/Proportionate Share	1,157,555	115,756	11,576
Sensitivity to changes in discount rate			
• 1% decrease (7.00%)	$1,538,142	$153,814	$15,381
• Current discount rate (8.00%)	1,157,555	115,756	11,576
• 1% increase (9.00%)	833,648	83,365	8,336
Pension Expense/Proportionate Share	$81,746	$8,175	$817
Deferred Outflows of Resources	3,686	369	37
Deferred Inflows of Resources	70,102	7,010	701

Required Supplementary Information – PERS Main – Per Segal (in thousands) (estimated)

	State Employees	Employer 1	Employer 2
State/Employer proportion of NPL	56%	2%	0.03%
State/Employer proportionate share of the NPL	$412,371	$17,995	$210
State/Employer covered employee payroll	$486,381	$21,224	$247
State/Employer proportionate share of the NPL as a percentage of its covered employee payroll	84.8%	84.8%	84.8%
Plan fiduciary net position as a percentage of the total pension liability	72.1%	72.1%	72.1%
Statutory employer contribution	$32,198	$1,405	$16
Contributions in relation to the statutory employer contribution	(32,198)	(1,405)	(16)
Contribution deficiency (excess)	$0	$0	$0
State/Employer covered employee payroll	$486,381	$21,224	$247
Statutory employer contributions as a percentage of covered employee payroll	6.62%	6.62%	6.62%

Required Supplementary Information – TFFR (in thousands) (estimated)

	District 1	District 2
District's proportion of NPL	10.0%	1.0%
District's proportionate share of the NPL	$115,756	$11,576
District's covered employee payroll	$55,000	$5,500
District's proportionate share of the NPL as a percentage of its covered employee payroll	210.5%	210.5%
Plan fiduciary net position as a percentage of the total pension liability	61.4%	61.4%
Actuarially determined contribution	$5,083	$508
Contributions in relation to the actuarially determined contribution	(5,913)	(591)
Contribution deficiency (excess)	($830)	($83)
District's covered employee payroll	$55,000	$5,500
Contributions as a percentage of covered employee payroll	10.75%	10.75%

Example Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan

EXAMPLE COST SHARING PENSION PLAN
Schedule of Pension Amounts
June 30, 2015

		Deferred Outflow of Resources				Deferred Inflows of Resources				Pension Expense	
Employer/ Nonmployer (special funding situation)	Net Pension Liability	Differences Between Expected and Actual Economic Experience	Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Differences Between Expected and Actual Economic Experience	Differences Between Actual and Projected Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Propotion and Proportionate Share of Pension Expense
State of Example	$ 38,589,135	428,768	2,058,088	1,500,690	782,365	380,371	1,063,285	–	584,365	1,878,717	12,375
Employer 1	4,831,647	53,685	257,688	187,898	96,633	47,625	133,131	–	125,325	235,229	(1,793)
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Employer 3	8,698,585	96,651	463,925	338,279	173,972	85,742	239,681	–	125,632	423,492	3,021
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Total	$ 99,263,485	1,102,928	5,294,055	3,860,249	1,939,406	978,435	2,735,105	–	1,939,406	4,832,655	–

STAY TUNED FOR AUDIT DETAILS OF THIS

Major Focus Area 4 - EMPLOYERS Expansion of Disclosure Information

- Includes both Notes and Required Supplementary Information (RSI)
- ***Greatly*** expanded plan and employer disclosures, including:
  - Description of the plan and assumptions
  - Policy for determining contributions
  - Sensitivity analysis of the impact on NPL of a one percentage point increase and decrease in the discount rate
  - Changes in the NPL for the past 10 years
  - Development of long-term earnings assumption

Expansion of Disclosure Information

- More new disclosure information
  - “Actuarially determined (employer) contribution” (aka the ARC)
    - Basis and amount – if determined!
    - Comparison to amount actually contributed
    - May encourage review (or creation) of actuarial funding policy
- Expanded disclosures greatly increase the pension information needed for plan and employer’s financial statements
  - New and challenging questions for employer’s financials:
    - **Which actuary/auditor develops this information?**
    - **Who pays for it?**

GASB 68 FOOTNOTE DISCLOSURES (ALL EMPLOYERS)

1. Plan Description and Related Information (census not necessary for cost sharing employers)
2. Changes in Net Pension Liability (NPL)
3. Significant Assumptions
4. Discount Rate and Key Discount Rate Assumptions
5. Pension Plan's Fiduciary Net Position
6. Measurement and Actuarial Valuation Date
7. Changes/New Assumptions made related to Benefit Terms
8. Changes made subsequent to Measurement Date
9. Current Period Pension Expense
10. Schedule of Deferred Outflows/Inflows of Resources

GASB 68 Cost Sharing Employers

Footnotes, Disclosures and Required Supplementary Information

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CPAs & BUSINESS ADVISORS

COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- **Information likely developed by the plan in a "template"**
- Descriptive Plan Information
  - Name of the Pension Plan
  - Identification as Single Employer/Agent Plan/Cost Sharing Plan and the Plan Administrator
  - Benefit Terms (classes of employees covered, types of benefits, key elements of the pension formula, automatic COLAs, authority under which benefit terms are established
  - Brief description of Contribution Requirements
  - Whether the pension plan issues a standalone financial report or included part of another government entity.

COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- Discount Rate Disclosures
  - Discount Rate applied and change from last measurement date.
  - Assumptions about projected cash flows related to the pension plan including contributions from employers, non-employers and employees.
  - Long-term expected rate of return and how it was determined.
  - Municipal bond rate used and source of that rate.
  - Breakdown of how projected benefit payments are allocated between those applied to the long-term expected rate of return and municipal bond rate to arrive at the discount rate.
  - Assumed Asset Allocation and long-term expected rate of return applied to each asset class.
  - NPL calculated using a discount rate that is +/-1% than stated Discount Rate

COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

Significant Assumptions

- Inflation
- Salary Changes
- Ad Hoc post-employment benefit changes (COLA)
- Mortality Assumptions/Source of Assumptions (i.e. published mortality table/experience study)
- Dates of the Experience Study

REQUIRED SUPPLEMENTARY INFORMATION (RSI) FOR FINANCIAL STATEMENTS (EMPLOYERS)

- **Schedule 1:**
  - **10 Year** – Employer's Proportionate Share (%, Amount) of Collective NPL, Covered Employee Payroll, Net Pension Liability as a % of Employee Covered Payroll, Pension Plans Net Position as % of TPL
  - **10 Year** - FNP/TPL/Funded Status/Covered Payroll/NPL as % of Payroll
- **Schedule 2:**
  - **10 Year -** ADEC to Actual Contributions (If necessary)
  - **10 Year -** Statutory/Contractual Contributions to Actual Contributions and Payroll (If necessary)
- **Note disclosure to RSI**

10 Year Schedules not required in year of implementation other <u>than the ADEC schedule</u> which is presented in full.

Required Supplementary Information – Cost Sharing Employer

	20X9	20X8	20X7	20X6	20X5
District's proportion of the net pension liability (asset)	0.20%	0.19%	0.19%	0.19%	0.20%
District's proportionate share of the net pension liability (asset)	$ 14,910	$ 11,738	$ 12,972	$ 13,495	$ 14,892
District's covered-employee payroll	$ 11,512	$ 10,412	$ 9,715	$ 9,553	$ 9,522
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	129.52%	112.74%	133.53%	141.26%	156.40%
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%	75.79%

Note: Only 5 years are presented here;
10 years of information would be required

Required Supplementary Information – Cost Sharing Employer

	20X9	20X8	20X7	20X6	20X5
Contractually required contribution	$ 2,095	$ 2,057	$ 1,969	$ 1,649	$ 1,176
Contributions in relation to the contractually required contribution	(2,095)	(2,057)	(1,969)	(1,649)	(1,176)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 12,097	$ 10,962	$ 10,063	$ 9,634	$ 9,538
Contributions as a percentage of covered-employee payroll	17.32%	18.76%	19.57%	17.11%	12.33%

Note: Only 5 years are presented here; 10 years of information would be required

Note to Required Supplementary Information

- *Changes of benefit terms.* Amounts reported in 20X8 reflect an increase in disability benefits to be equivalent to retirement benefits
- *Changes of assumptions.* Amounts reported in 20X9 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 20X6 and later, the expectation of retired life mortality was based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table, which was used to determine amounts reported prior to 20X6.

Effective Date and Transition Issues

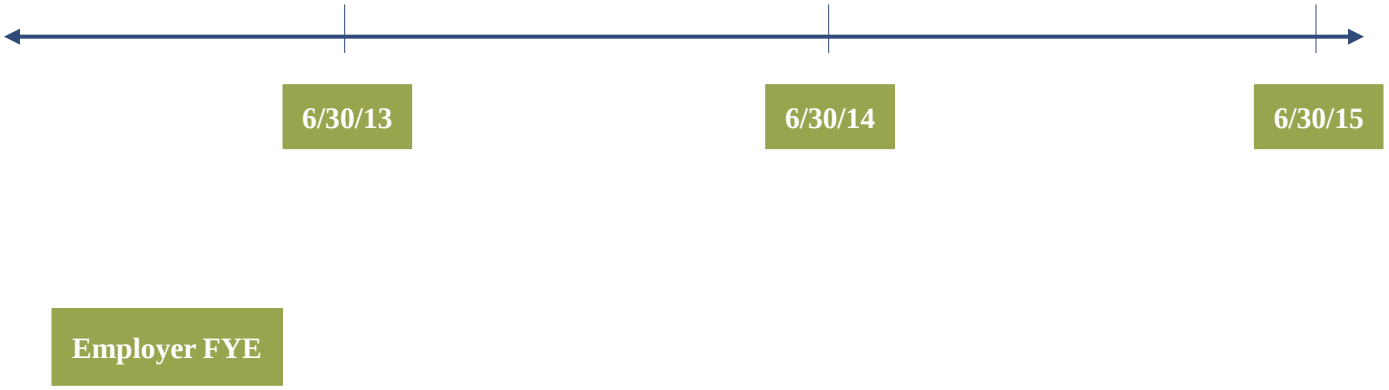
- **Plans** – Fiscal years *beginning after* June 15, 2013
- **Employers –** Fiscal years *beginning after* June 15, 2014
- Prior period adjustments will likely take place for a number of years as deferred positions become clarified
- RSI
  - If data is unknown at transition – must include a text box on each schedule explaining why – similar to GASB-54

KEY DATES

Key Dates

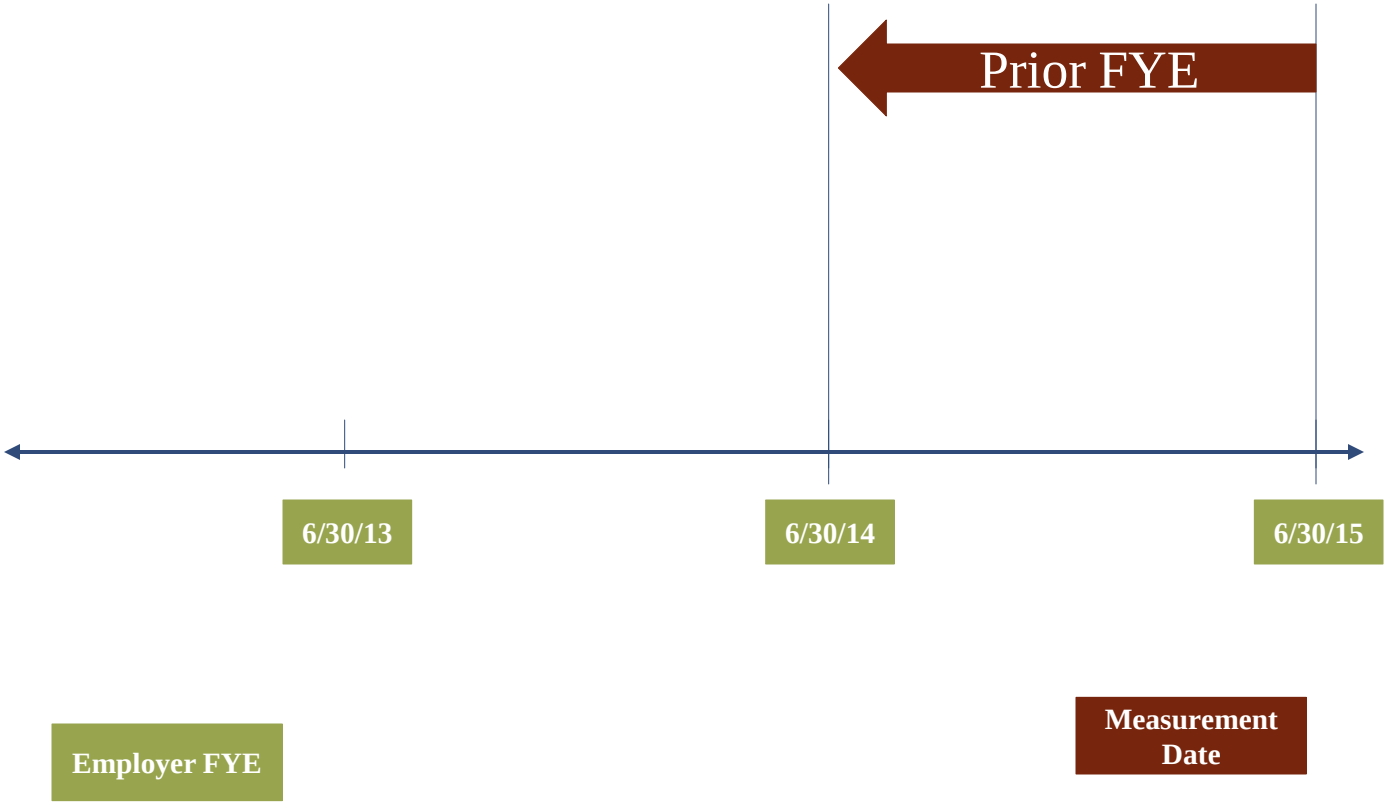
- Potentially 3 different dates we need to think about
  - Employer fiscal year-end
  - Measurement date (of NPL)
    - As of date no earlier than end of prior fiscal year
    - Both components (TPL/plan net position) as of the same date
  - Actuarial valuation date (of TPL)
    - If not measurement date, as of date no more than 30 months (+1 day) prior to FYE
    - Actuarial valuations at least every 2 years (more frequent valuations encouraged)
- Coordination with pension plan

Timing - Example



OK to change dates to 12/31 on your handouts for employer FYE

Timing - Example



OK to change dates to 12/31 on your handouts for employer FYE

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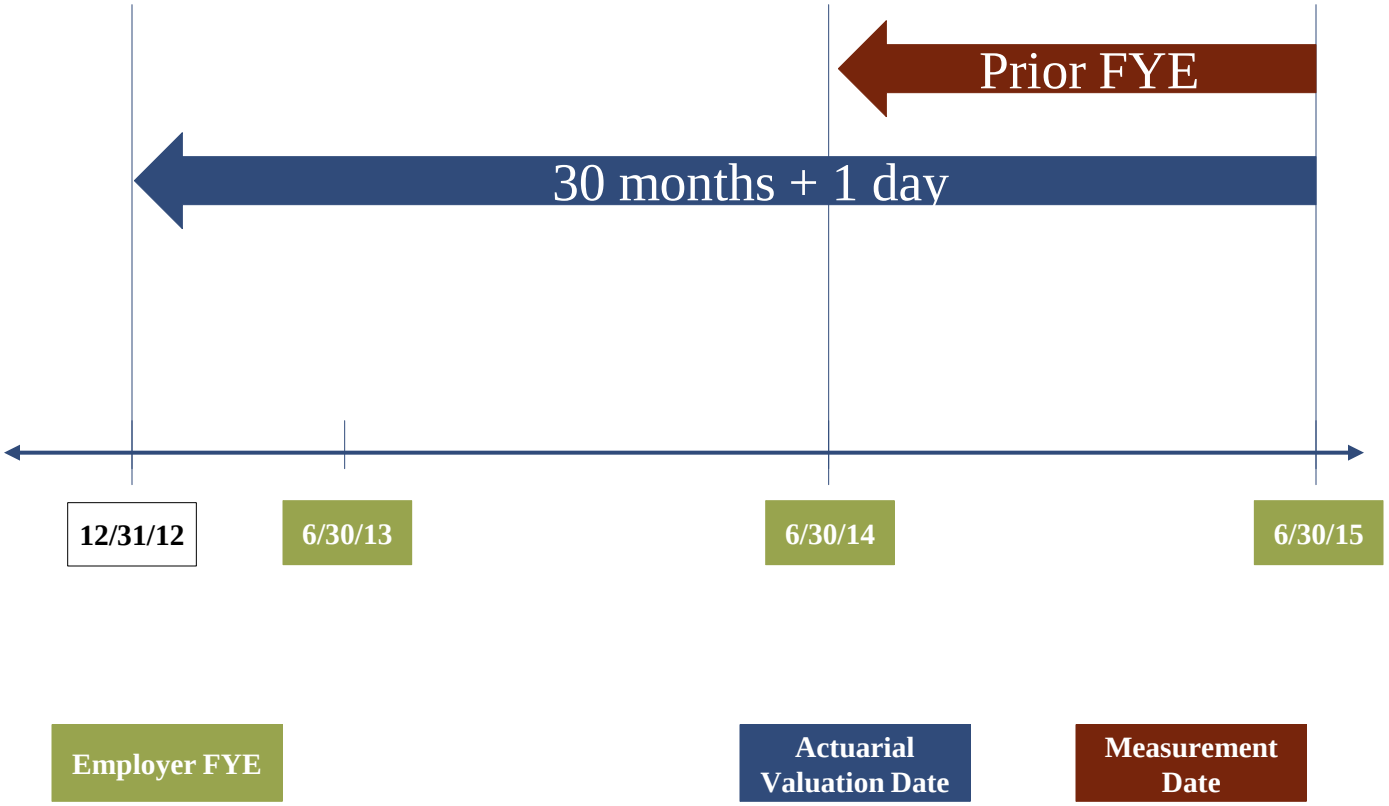
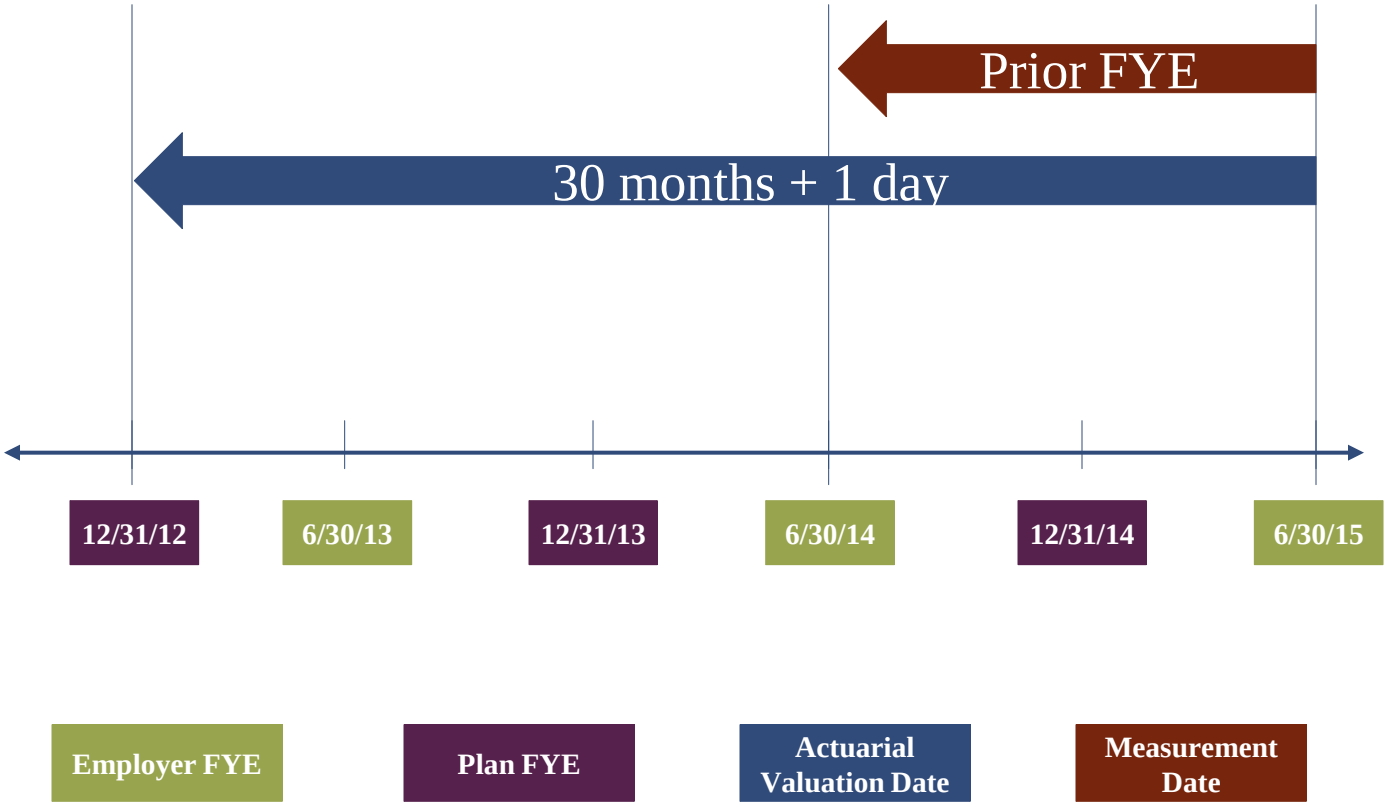
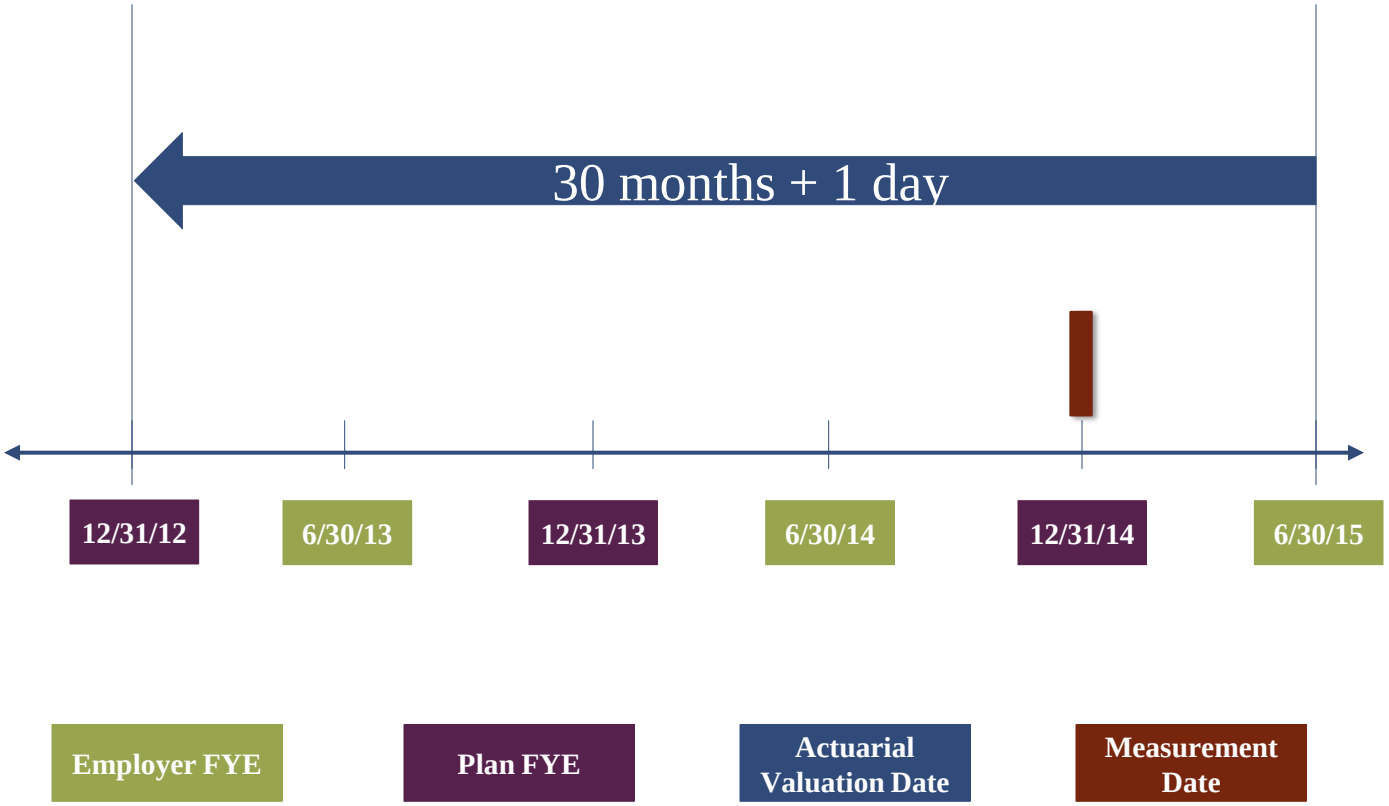


OK to change dates to 12/31 on your handouts for employer FYE

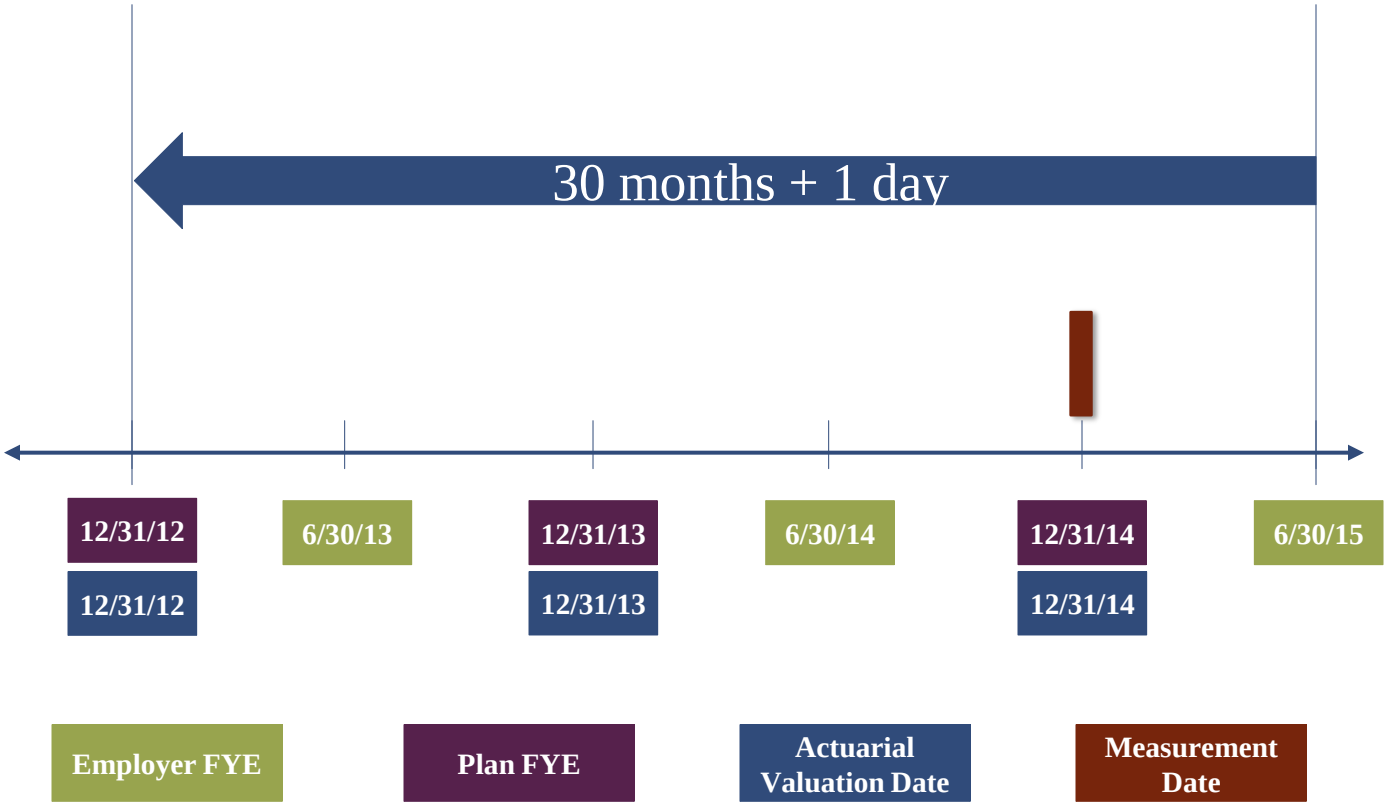
Timing - Example



Timing - Example

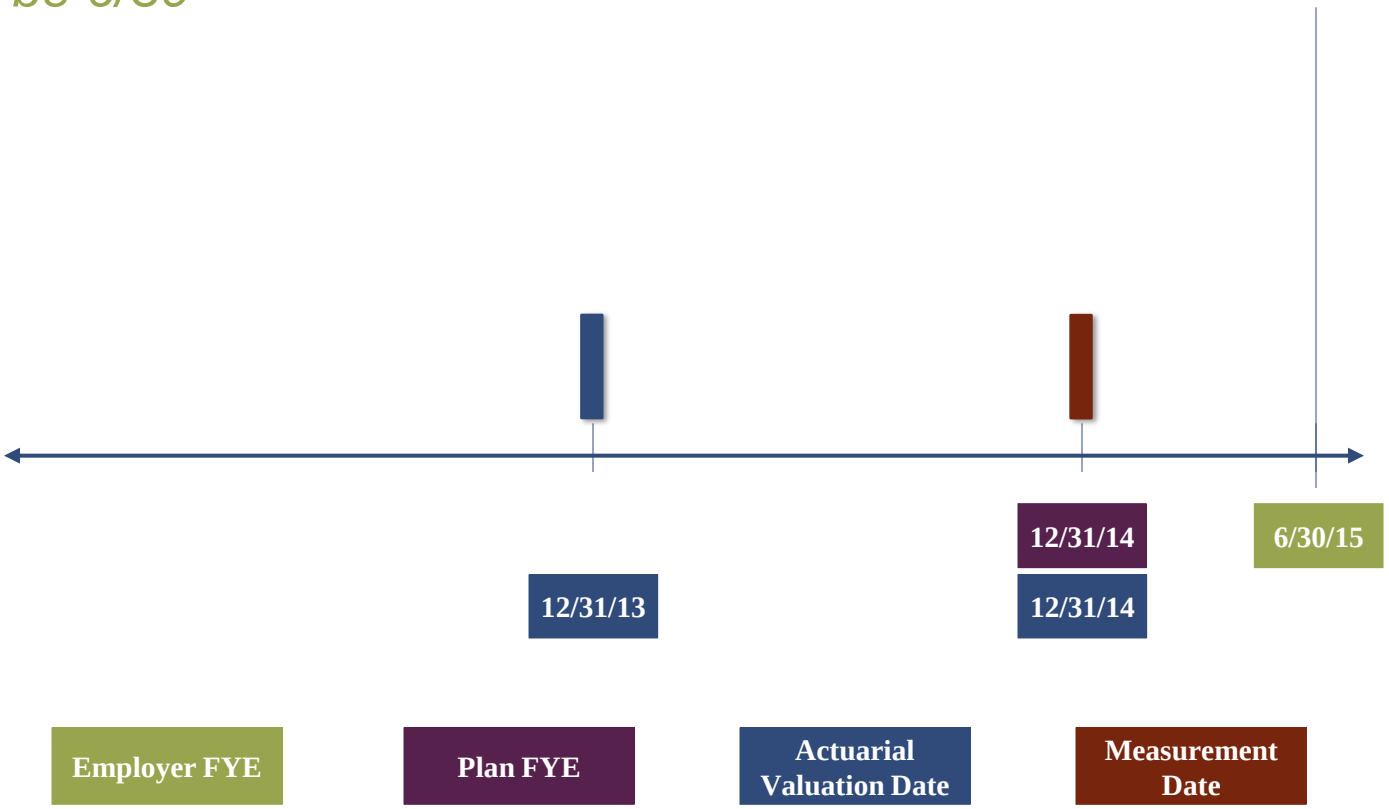


Timing - Example



Timing - Example

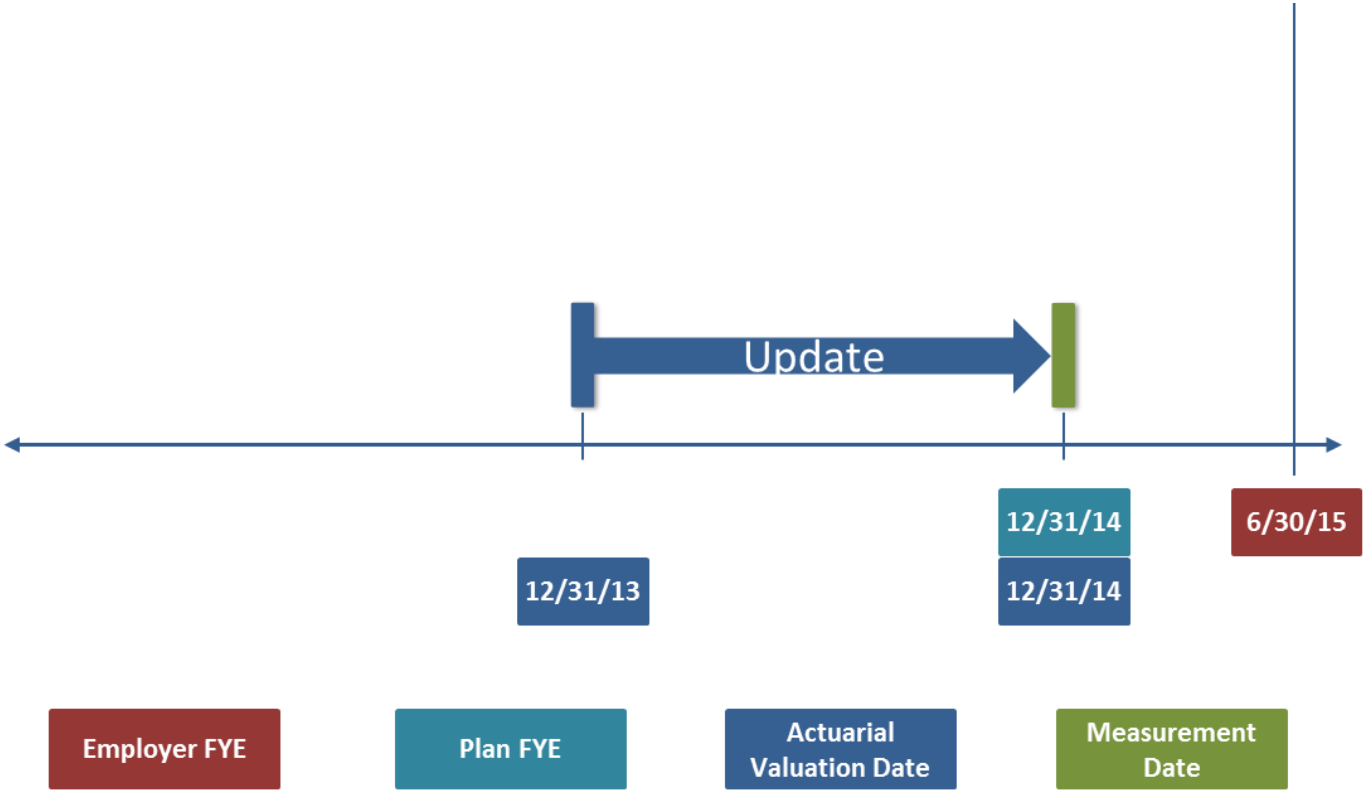
12/31 dates for plan / actuary may be 6/30



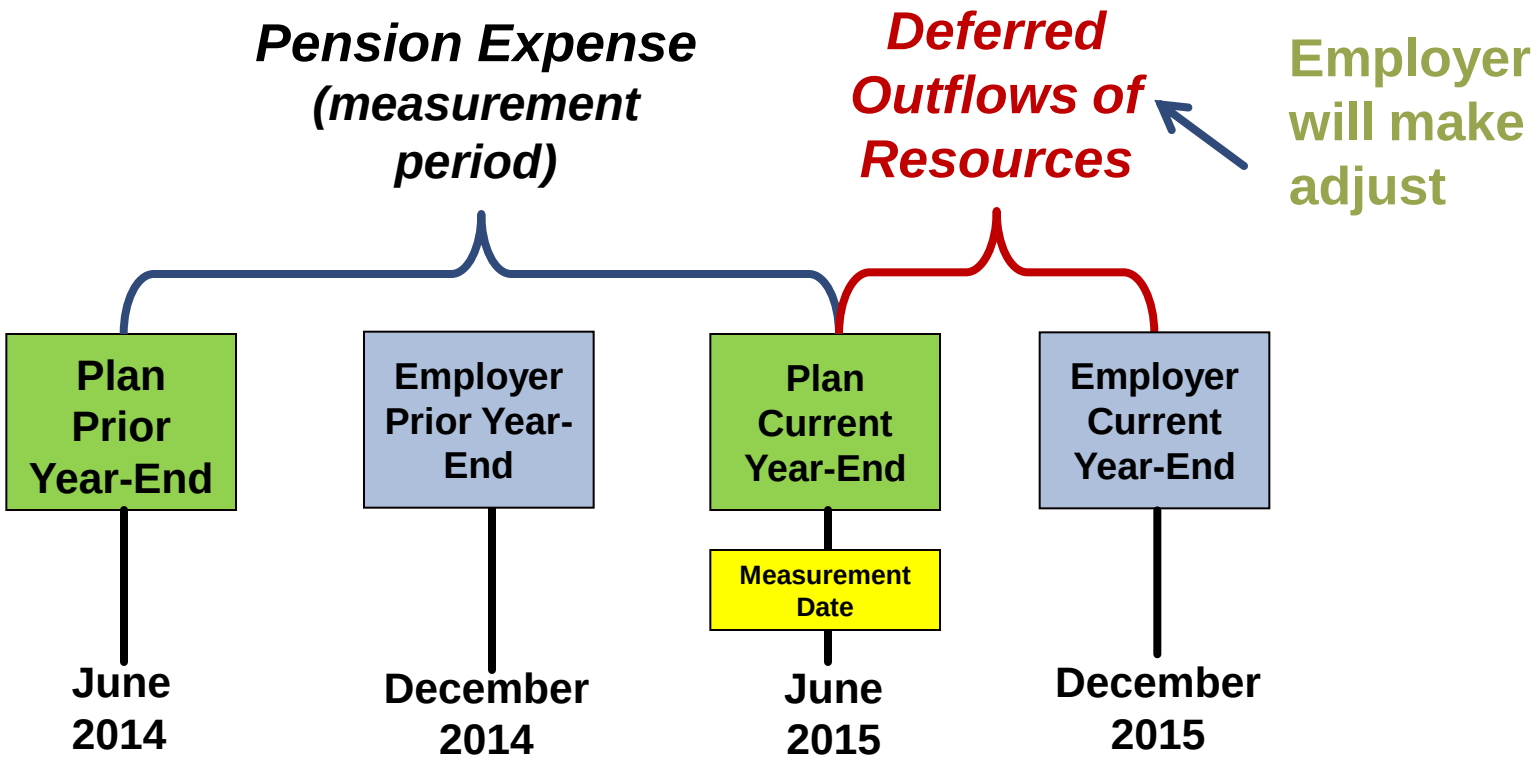
OK to change dates to 12/31 on your handouts for employer FYE

Timing - Example

12/31 dates for plan / actuary may be 6/30



Timing of Measurement of Total Pension Liability



Measurement date will most likely correspond to year-end of plan. Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer's fiscal year should be recognized as a deferred outflow of resources.

Prior Period Adjustments

- Example:
  - Employer – Net Pension Liability as of **June 30, 2015**
    - Measurement date – June 30, 2014 (annual valuation from 7/1/13 to 6/30/14)
    - No comparative financial statements
    - **Prior period adjustment would be as of 7/1/14** including
      - **Deferred outflows** *determined as of the beginning of the year*
        - **Contributions from July 1, 2013 to June 30, 2014** ***would not be included as they are before the beginning of year***
        - **Contributions after June 30, 2014 not part of PPA**
      - **NPL**
      - **Deferred inflows / outflows as of the measurement date**

Prior Period Adjustments

- How to PPA:
  1. Remove any Net Pension Obligation – *might be $0*
  2. Remove any payables to the plan – *might be $0*
  3. Add the balance of any NPL or proportion *as of the beginning of the period*
  4. Add deferred outflows of resources for contributions *after the measurement date* – **see transition guidance**
  5. Add deferred outflows of resources / deferred inflows of resources *as of the beginning of the period*
  6. Add any payables to the plan as of the beginning of the period

Prior Period Adjustments

- If employer can determine deferred outflows / inflows of resources from investments, contributions **but cannot determine all other deferrals**
  - Don’t record deferred positions of investments at implementation, only contributions.
    - Prior period adjustments when all others known
  - If can’t determine all remaining deferred positions for all historical periods, report none except for contributions
    - Again – PPAs when known

Again – the problem in Implementation

- GASB 68 requires employer to recognize NPL as of **the measurement date** no earlier than the prior fiscal year end
- Contributions made during the period *after measurement* date *but before reporting date* is required to be deferred
- Transition to new standards
  - If not practical to determine *all* deferred positions at transition, then start at zero.
  - BUT – contributions deferred!
  - Houston… we have a problem…

Updated transition guidance

- Recognize a deferred amount for pension contributions made after actuarial report but before fiscal year end
- Recognize no other beginning balance for deferred positions **unless known at transition**
- Effective date – same as GASB-68

BREAKING NEWS

- New OPEB Exposure drafts contain amendments to GASB-67 and 68
  - Clarified note disclosure to RSI elements
  - What to do if there are one-time assessments to pay for a “separately financed specific liability”
    - One-time assessment resulting from an increase in TPL due to an individual employer joining a plan or a change in benefits due to an individual employer
    - For cost –sharing employers - pension expense and change in amortizations may occur due to change in proportions
- Comments due on exposure drafts August 29th – public hearings in September

AUDIT CONSIDERATIONS

Where to Start?

- Plan, Employers and auditors may want to read statutes/plan document
  - Gain understanding of key provisions
- Obtain actuarial valuation report
  - Measurement date
  - Key assumptions
  - Plan provisions
- Obtain and test census data from actuary and payroll
- Obtain confirmation from actuary
- Evaluation of management's specialist
- Consider need for auditor specialist

Census Data

- Key census data
  - Date of birth
  - Gender (male or female)
  - Date of hire or years of service
  - Date of termination or retirement
  - Marital status
  - Spouse date of birth
  - *Eligible* compensation (may NOT equal W-2s, especially in higher education)
  - Employment status
- Auditing census data
  - Active employees
  - Inactive/retired
- Resolving exceptions

Plan auditor may perform *or* work with employer auditors

The auditor must test the reliability and completeness of the census data provided to the actuary.

Cost Sharing Employers

- 2 White Papers published by AICPA
  - Census data testing
  - Plan reporting to employers
- Census data testing would be **based on risk**
  - Testing coordinated by plan auditor
    - Employers > 20% of plan active employees tested annually
      - **Likely State only?**
    - Between 5% and 20% - tested every 5 years **Any?**
    - Less than 5% - tested every 10 years **but some tested annually to get comfort**
    - Very small employers may never get tested – immaterial
  - Report is an attestation report

Cost-Sharing Plan Issues

- Audited plan financial statements don't give participating employers everything they need
- AICPA whitepapers at

  http://www.aicpa.org/INTERESTAREAS/GOVERNMENTALAUDITQUALITY/RESOURCES/GASBMATTERS/Pages/default.aspx

  Remember – these are "best practices"

Cost-Sharing Plan Issues – Solutions provided by AICPA

- Plan provides supplemental "schedule of employer allocations" for which plan auditor is engaged to provide opinion
  - Use allocation method based on covered payroll or required (actual) contributions representative of future contributions and appropriate based on classes of benefits provided
  - Projected future contributions could be used if necessary (harder to audit)
  - **# of decimal places may become important for plans with large number of participating employers**

Note: Above not required by standard, but other alternatives create inconsistency and additional audit burden

Reminder - Example Schedule of Employer Allocations

EXAMPLE COST SHARING PENSION PLAN

Schedule of Employer Allocations

June 30, 2015

Employer/ Nonmployer (special funding situation)	2015 Actual Employer Contributions	Employer Allocation Percentage
State of Example	$ 2,143,842	38.9 %
Employer 1	268,425	4.9
Employer 2	322,142	5.8
Employer 3	483,255	8.8
Employer 4	633,125	11.5
Employer 5	144,288	2.6
Employer 6	95,365	1.7
Employer 7	94,238	1.7
Employer 8	795,365	14.4
Employer 9	267,468	4.9
Employer 10	267,128	4.8
Total	$ 5,514,641	100.0

Allocation may be historical or actuarial

Cost-Sharing Plan Issues – Solutions Provided by AICPA

- Plan provides supplemental "schedule of plan pension amounts by employer" for which plan auditor engaged to provide opinion
  - Supplemental schedule showing the following amounts by employer
    - Net pension liability
    - Deferred outflows (by category)
    - Deferred inflows (by category)
    - Pension expense

Reminder - Example Schedule of Employer Pension Amounts

EXAMPLE COST-SHARING PENSION PLAN
Schedule of Pension Amounts
June 30, 2015

		Deferred Outflow of Resources				Deferred Inflows of Resources				Pension Expense	
Employer/ Nonmployer (special funding situation)	Net Pension Liability	Differences Between Expected and Actual Economic Experience	Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Differences Between Expected and Actual Economic Experience	Differences Between Actual and Projected Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Propotion and Proportionate Share of Pension Expense
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Total	$ 99,263,485	1,102,928	5,294,055	3,860,249	1,939,406	978,435	2,735,105	–	1,939,406	4,832,655	–

Cost-Sharing Plan - Employer Auditor Considerations

- Evaluate plan auditor's report on supplemental schedules (AU-C 805)
  - If plan auditor doesn't report on, evaluate necessary audit procedures
- Test amounts in schedules relating to employer
- Test census data?
- Additional procedures as considered necessary
- Objective - sufficient appropriate audit evidence

Key Concerns and Decision Points

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FINANCIAL SERVICES

So – Key Questions

- Timing of information
- Who will be responsible for information
- What's the basis of allocation and to how many decimal places?
- Will Plan prepare "templates" for employers with basic financial statement information / note disclosure / RSI?
- Who / When will auditing of census data take place?
- Who / When will auditing of "templates" take place?

Key Concerns & Decision Points - Employers

- For all plans
  - Relationship between measurement date and plan year-end
  - Actuarial valuation - precision v. timeliness
  - Involvement in establishing assumptions
  - Reliance on plan actuary as management specialist
  - Qualifications of plan auditor
  - Will plan engage auditors to provide assurance on employer information?
  - Implementation concerns (timing, resources)

Key Concerns & Decision Points - Employers

- Special funding situations (do we have them?) (unlikely in ND)
  - Identification
  - Handling differences of opinion
- Cost-sharing multiple-employer plans
  - Obtain amounts and disclosures for the financials
  - Evaluating accuracy of information
  - What work will my auditors need to do?

Key Concerns & Decision Points - Auditors

- For all plans
  - Timing of information needed for audit
  - Role in evaluating actuarial assumptions
  - Need to engage auditor's specialist?
  - Will plan engage auditors to provide assurance on employer information?
  - Did plan auditors engage a specialist?
  - Qualifications of plan auditor
  - Implementation concerns (timing, resources)
  - Sufficient appropriate audit evidence for unmodified opinion?

Key Concerns & Decision Points - Auditors

- Special funding situations (unlikely in ND)
  - Identification
  - Handling differences of opinion
- Cost-sharing multiple-employer plans
  - Who will audit collective amounts and allocation of amounts to participating employers?
  - Obtaining sufficient audit evidence on actuarial information
  - Who will test census data at participating employers?

Talking Points to Your Decision Makers / Media

- Remember the 3 C's
  - **Consistent** messaging
  - **Concise** information (not data)
  - **Calm** not chaos
- **Talking points**
  - GASB Pension standards are for financial reporting, not overall decision-making or funding
    - But may drive changes in decisions in the future
  - Transparency in financials are increasing due to new standards
  - New financial statements reflect economic reality rather than historical cash flow
  - The plan is NOT changing solely due to new standards
  - Coordination and administration are being done very conservatively at the state level

Town Hall Discussion

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CPAs & BUSINESS ADVISORS

Questions!

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Appendices

Illustrative Notes for Pensions

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What a Cost Sharing Employer's Notes Will Look Like for a DB Plan (could be district, city, authority etc.)

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Sample District
Notes to the Financial Statements
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Pension Plan (TPP) and additions to/deductions from TPP's fiduciary net position have been determined on the same basis as they are reported by TPP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X

General Information about the Pension Plan
Plan description. The District's defined benefit pension plan, Political Subdivision Pension Plan (PSPP), provides pensions for all participating political subdivisions employees of the State. PSPP is a agent-employer defined benefit pension plan administered by the State Consolidated Retirement System (SCRS). Article 2 of the *Constitution of the State* grants the authority to establish and amend the benefit terms to the SCRS Board of Trustees (SCRS Board). SCRS issues a publicly available financial report that can be obtained at http://www.treasury.xx.gov/SCRS.pub.html.

Sample District
Notes to the Financial Statements
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

Benefits provided. PSPP provides retirement, disability, and death benefits. Retirement benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at age 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the plan prior to July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by SCRS, except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a noncompounding basis rather than the compounded basis applicable under SCRS.

Sample District
Notes to the Financial Statements
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

Contributions. Per Article 33 of the State Statutes, contribution requirements of the active employees and the participating school districts are established and may be amended by the TRS Board. Employees are required to contribute 6.20 percent of their annual pay. The school districts' contractually required contribution rate for the year ended June 30, 20X9, was 17.32 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were $2,095 for the year ended June 30, 20X9.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 20X9, the District reported a liability of $14,910 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 20X8, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At December 31, 20X8, the District's proportion was 0.20 percent, which was an increase of 0.01 from its proportion measured as of December 31, 20X7.

Sample District
Notes to the Financial Statements
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

For the year ended June 30, 20X9, the District recognized pension expense of $2,394. At June 30, 20X9, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,657	$ 142
Changes of assumptions	1,714	130
Net difference between projected and actual earnings on pension plan investments	-	2,194
Changes in proportion and differences between District contributions and proportionate share of contributions	753	156
District contributions subsequent to the measurement date	1,065	-
Total	$ 6,189	$ 2,622

Sample District
Notes to the Financial Statements
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

$1,065 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 20Y0. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
20Y0	$(272)
20Y1	159
20Y2	220
20Y3	543
20Y4	553
Thereafter	1,299

Note – optional presentation of this table – separate columns of positives and negatives and total column by year

Payable to the Pension Plan

At June 30, 20X9, the District reported a payable of $xx for the outstanding amount of contributions to the pension plan required for the year ended June 30, 20X9.

Sample District
Notes to the Financial Statements
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

Actuarial assumptions. The total pension liability in the December 31, 20X8 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary Increases	4.5% average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including I nflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.
The actuarial assumptions used in the December 31, 20X8 valuation were based on the results of an actuarial experience study for the period January 1, 20X6−October 31, 20X8. As a result of the 20X8 actuarial experience study, the expectation of life after disability was adjusted in the December 31, 20X8 actuarial valuation to more closely reflect actual experience.

Sample District
Notes to the Financial Statements
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Rate of Return
Domestic Equity	31%	5.4%
International Equity	21	5.6%
Fixed Income	28	1.3%
Real Estate	10	5.0%
Cash and Other	11	0.1%
Total	**100%**	

Sample District
Notes to the Financial Statements
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate 7.75%	1% Increase (8.75%)
District's proportionate share of the Net Pension Liability	$23,320	$14,910	$5,141

Sample District
Notes to the Financial Statements
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued SCRS financial report.

Additional items would be added as follows:

- Additional plans (also defined contribution plans)
- Terms and conditions of benefit changes
- Closed or open status of plan(s)
- Changes in the plan between the measurement date and reporting date (subsequent events)
- Ad Hoc COLAs (if any)
- Change in discount rate

Required Supplementary Information – Cost Sharing Employer

(city, district, authority, etc.)

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FINANCIAL SERVICES

Required Supplementary Information – Cost Sharing Employer

	20X9	20X8	20X7	20X6	20X5
District's proportion of the net pension liability (asset)	0.20%	0.19%	0.19%	0.19%	0.20%
District's proportionate share of the net pension liability (asset)	$ 14,910	$ 11,738	$ 12,972	$ 13,495	$ 14,892
District's covered-employee payroll	$ 11,512	$ 10,412	$ 9,715	$ 9,553	$ 9,522
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	129.52%	112.74%	133.53%	141.26%	156.40%
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%	75.79%

Note: Only 5 years are presented here;
10 years of information would be required

Required Supplementary Information – Cost Sharing Employer

	20X9	20X8	20X7	20X6	20X5
Contractually required contribution	$ 2,095	$ 2,057	$ 1,969	$ 1,649	$ 1,176
Contributions in relation to the contractually required contribution	(2,095)	(2,057)	(1,969)	(1,649)	(1,176)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 12,097	$ 10,962	$ 10,063	$ 9,634	$ 9,538
Contributions as a percentage of covered-employee payroll	17.32%	18.76%	19.57%	17.11%	12.33%

Note: Only 5 years are presented here; 10 years of information would be required

Note to Required Supplementary Information

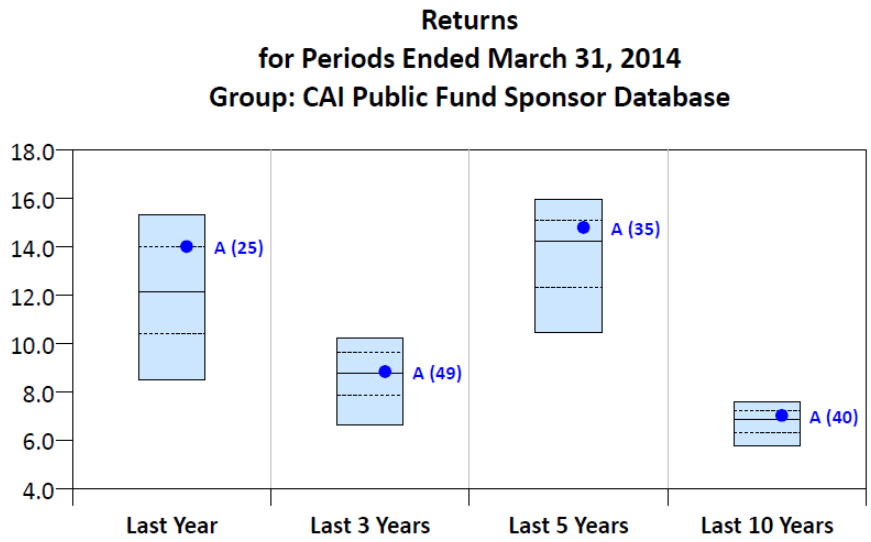
- *Changes of benefit terms.* Amounts reported in 20X8 reflect an increase in disability benefits to be equivalent to retirement benefits
- *Changes of assumptions.* Amounts reported in 20X9 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 20X6 and later, the expectation of retired life mortality was based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table, which was used to determine amounts reported prior to 20X6.

TFFR Investment Update

July 24, 2014

Dave Hunter
Executive Director/Chief Investment Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

Public Fund Peer Comparison – Gross Returns



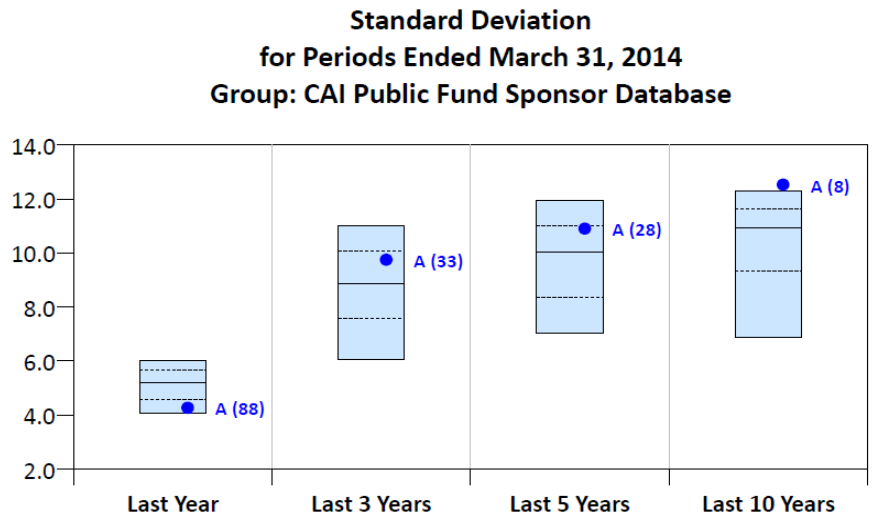
	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	15.4	10.2	16.0	7.6
25th Percentile	14.0	9.6	15.1	7.2
Median	12.1	8.8	14.2	6.9
75th Percentile	10.4	7.9	12.3	6.3
90th Percentile	8.5	6.6	10.5	5.8
Member Count	229	215	205	175
Total Fund-TFFR (internal/Callan) ● A	**14.0**	**8.9**	**14.8**	**7.0**

Gross Returns: The TFFR Fund generated 1st quartile returns for the 1-year period and 2nd quartile returns for the 3-, 5-, and 10 year periods ended March 31, 2014 when compared to public fund peers (unadjusted basis).

Note: TFFR Fund and peer performance are based on unaudited gross returns. *Source: Callan*

Public Fund Peer Comparison – Standard Deviation

Standard deviation is used to measure investment (or portfolio) volatility whereas a lower standard deviation is generally preferred over a higher standard deviation.



	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	6.0	11.0	11.9	12.3
25th Percentile	5.7	10.1	11.0	11.6
Median	5.2	8.9	10.0	10.9
75th Percentile	4.6	7.6	8.4	9.3
90th Percentile	4.1	6.1	7.1	6.9
Member Count	229	215	205	175
Total Fund-TFFR (internal/Callan) ● A	**4.3**	**9.8**	**10.9**	**12.5**

Standard Deviation of Gross Returns: The TFFR Fund generated 4th quartile standard deviation for the 1-year period, 2nd quartile standard deviation for the 3- and 5-year periods, and 1st quartile standard deviation for the 10-year period ended March 31, 2014 when compared to public fund peers (unadjusted basis).

Note: TFFR Fund and peer performance are based on unaudited gross returns. *Source: Callan*

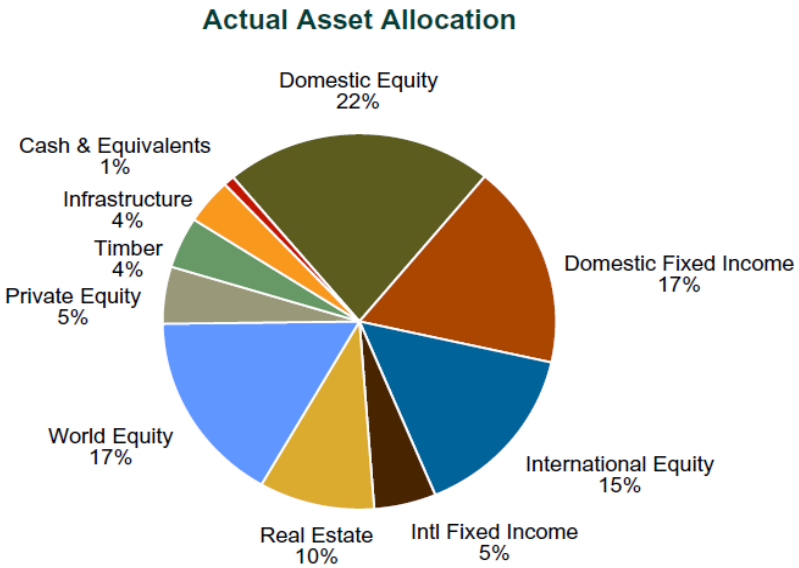
TFFR Asset Allocation
As of March 31, 2014

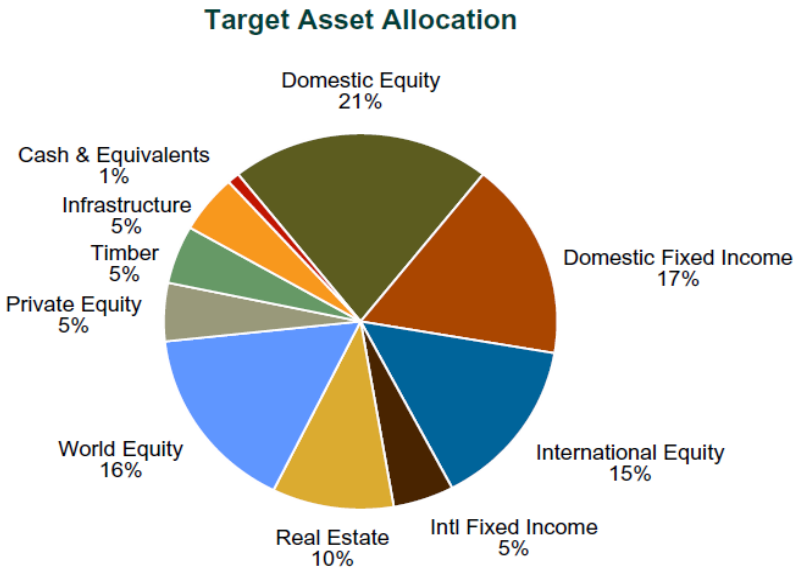
		Allocation		
	Market Value	Actual	Policy	Δ
TOTAL FUND	1,995,969,965	100.0%	100.0%	0.0%
GLOBAL EQUITIES	1,170,096,009	58.6%	57.0%	1.6%
GLOBAL FIXED INCOME	449,925,504	22.5%	22.0%	0.5%
GLOBAL REAL ASSETS	357,596,806	17.9%	20.0%	-2.1%
Total Cash Equivalents	18,351,646	0.9%	1.0%	-0.1%

NOTE: Monthly market values are preliminary and subject to change.

- Based on the broad asset allocation framework adopted in 2011, the TFFR Total Fund was slightly **overweight to Global Equities (1.6%) and Global Fixed Income (0.5%)** and an **underweight to Global Real Assets (-2.1)** as compared to its target asset allocation on March 31, 2014.

TFFR Actual vs. Target Asset Allocation
As of March 31, 2014



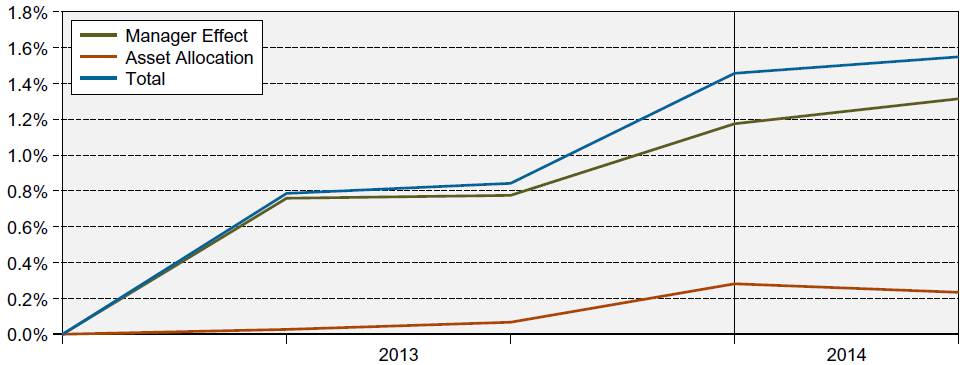


Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Domestic Equity	440,546	22.1%	21.4%	0.7%	13,408
Domestic Fixed Income	348,626	17.5%	17.0%	0.5%	9,311
International Equity	302,697	15.2%	14.6%	0.6%	11,286
Intl Fixed Income	101,299	5.1%	5.0%	0.1%	1,501
Real Estate	190,440	9.5%	10.0%	(0.5%)	(9,157)
World Equity	329,999	16.5%	16.0%	0.5%	10,644
Private Equity	96,854	4.9%	5.0%	(0.1%)	(2,944)
Timber	88,735	4.4%	5.0%	(0.6%)	(11,063)
Infrastructure	78,421	3.9%	5.0%	(1.1%)	(21,377)
Cash & Equivalents	18,352	0.9%	1.0%	(0.1%)	(1,608)
Total	1,995,970	100.0%	100.0%		

Unaudited amounts subject to change

TFFR Total Fund Attribution
One Year Ended March 31, 2014

Cumulative Relative Attribution Effects



One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	23%	21%	24.25%	22.99%	0.27%	0.12%	0.38%
Domestic Fixed Income	17%	17%	2.92%	2.10%	0.15%	(0.02%)	0.13%
Real Estate	10%	10%	13.74%	11.17%	0.25%	0.01%	0.25%
Timber	5%	5%	1.82%	9.78%	(0.39%)	(0.01%)	(0.40%)
Infrastructure	4%	5%	7.66%	1.41%	0.25%	0.13%	0.38%
International Equity	15%	15%	17.24%	13.73%	0.50%	(0.02%)	0.48%
International Fixed Incom	5%	5%	1.52%	3.24%	(0.08%)	0.00%	(0.08%)
Private Equity	5%	5%	7.56%	7.56%	0.00%	(0.01%)	(0.01%)
World Equity	17%	16%	21.43%	19.07%	0.36%	0.02%	0.38%
Cash & Equivalents	1%	1%	0.05%	0.07%	(0.00%)	0.03%	0.03%
Total			**14.02%**	**= 12.47%**	**+ 1.31%**	**+ 0.23%**	**1.55%**

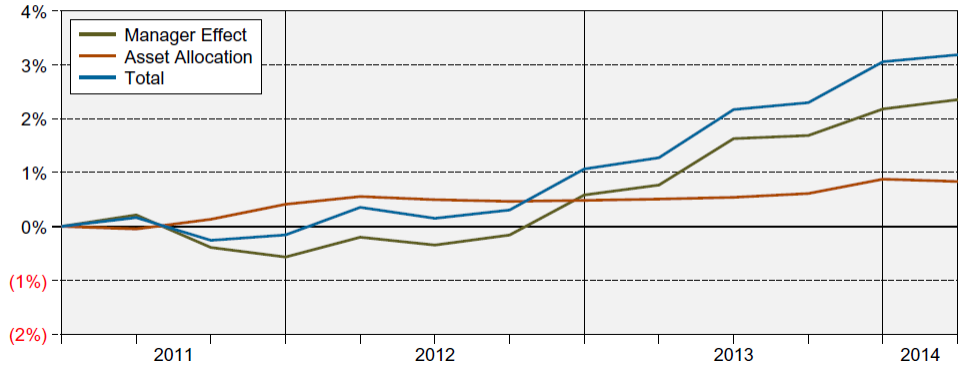
- **One Year Manager Selection** within Public Equities, Real Estate, Infrastructure, and Domestic Fixed Income was a positive contributor to relative performance, while Timber and International Fixed Income were detractors.

Unaudited amounts subject to change

Source: Callan, gross returns

TFFR Total Fund Attribution
Three Years Ended March 31, 2014

Cumulative Relative Attribution Effects



Three Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	28%	27%	14.90%	14.53%	0.02%	0.16%	0.19%
Domestic Fixed Income	17%	17%	6.02%	5.02%	0.14%	(0.01%)	0.14%
Real Estate	10%	10%	13.20%	11.69%	0.14%	0.08%	0.22%
Timber	4%	4%	-	-	(0.40%)	0.02%	(0.38%)
Infrastructure	3%	4%	-	-	0.22%	0.19%	0.41%
International Equity	18%	18%	7.08%	5.23%	0.32%	(0.00%)	0.32%
International Fixed Incom	5%	5%	4.56%	2.06%	0.14%	(0.02%)	0.12%
Private Equity	5%	5%	5.77%	5.77%	0.00%	(0.11%)	(0.11%)
World Equity	8%	9%	-	-	0.07%	(0.08%)	(0.01%)
Cash & Equivalents	1%	1%	0.07%	0.08%	(0.00%)	(0.01%)	(0.01%)
Total			**8.85%** =	**7.95%** +	**0.67%** +	**0.24%**	**0.90%**

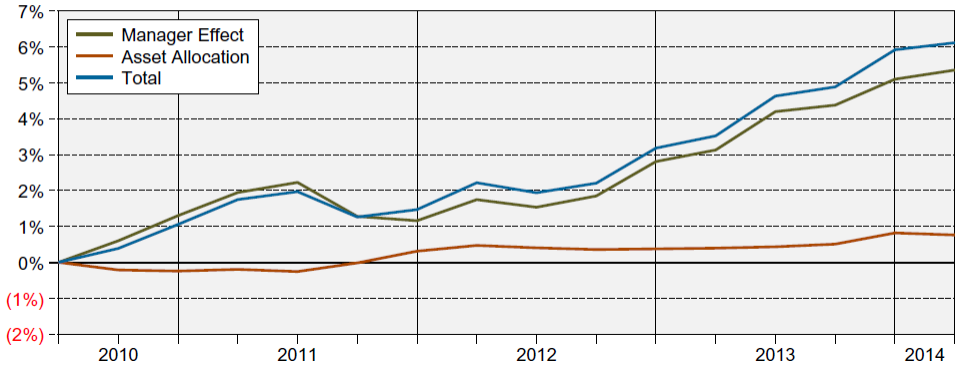
- **Three Year Manager Selection** within International Equity, Infrastructure, Fixed Income and Real Estate was a positive contributor to relative performance, while Timber was a detractor. *Unaudited amounts subject to change*

Source: Callan, gross returns

Note: Timber, Infrastructure and World Equity did not have distinct Target Returns in prior years.

TFFR Total Fund Attribution
Three and Three-Quarter Years Ended March 31, 2014

Cumulative Relative Attribution Effects



Three and Three-Quarter Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	30%	29%	20.55%	20.26%	0.00%	0.13%	0.14%
Domestic Fixed Income	17%	18%	7.19%	5.66%	0.26%	(0.03%)	0.23%
Real Estate	10%	10%	15.32%	12.69%	0.25%	0.05%	0.30%
Timber	3%	3%	-	-	(0.33%)	0.02%	(0.31%)
Infrastructure	2%	3%	-	-	0.18%	0.16%	0.34%
International Equity	19%	19%	12.67%	10.18%	0.49%	(0.01%)	0.48%
International Fixed Incom	5%	5%	6.86%	4.60%	0.13%	(0.02%)	0.11%
Private Equity	5%	5%	8.01%	8.01%	0.00%	(0.08%)	(0.08%)
World Equity	7%	7%	-	-	0.06%	(0.06%)	(0.01%)
Cash & Equivalents	1%	1%	0.10%	0.10%	(0.00%)	(0.02%)	(0.02%)
Total			**13.07%**	**= 11.90%**	**+ 1.03%**	**+ 0.15%**	**1.18%**

- **Three and Three-Quarter Year Manager Selection** within International Equity, Fixed Income, Real Estate and Infrastructure was a positive contributor to relative performance, while Timber was a detractor.

Unaudited amounts subject to change

Source: Callan, gross returns

Note: Timber, Infrastructure and World Equity did not have distinct Target Returns in prior years.

Historical Market Returns - Asset Class

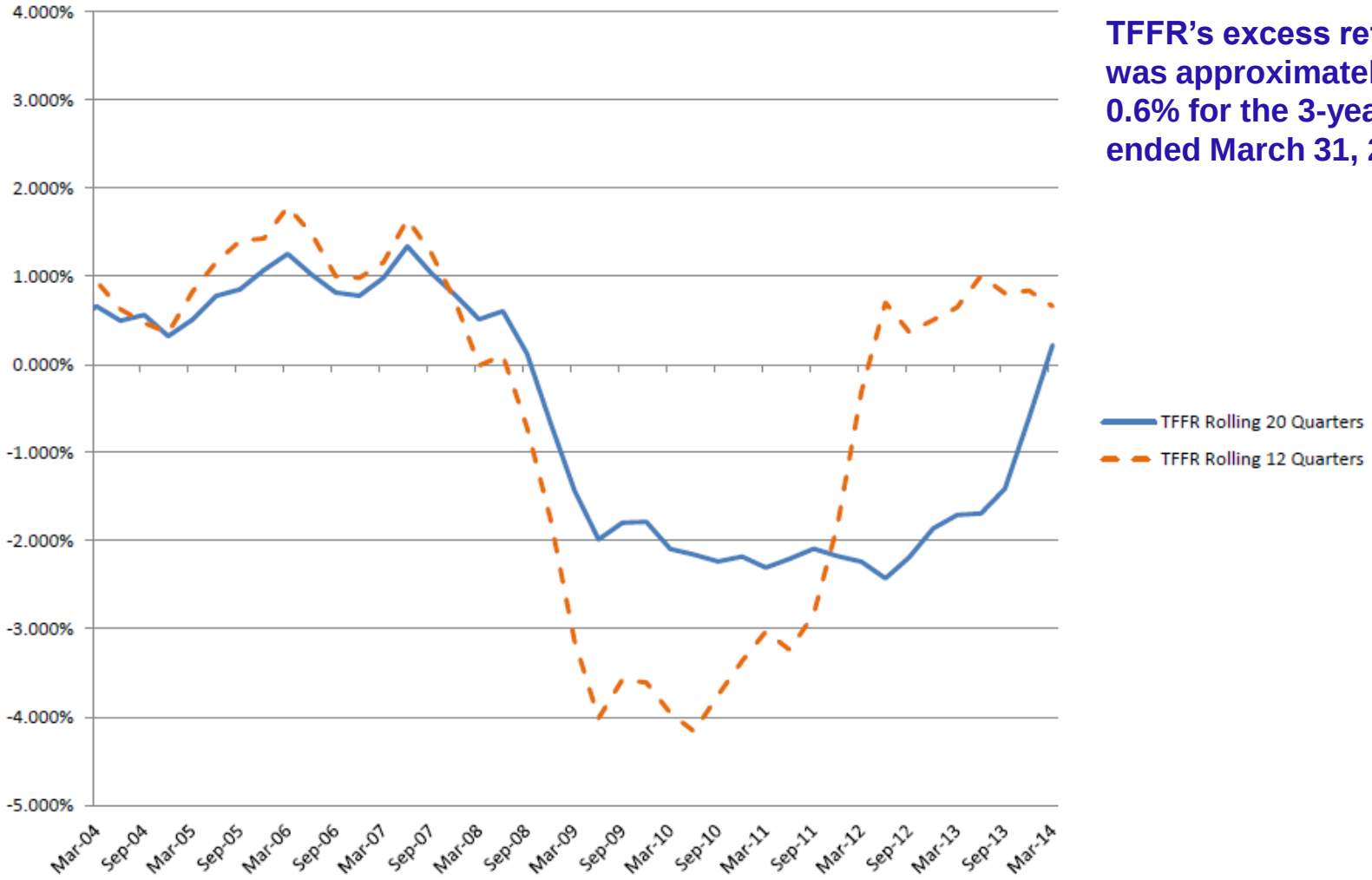
		Periods Ended March 31, 2014			
Asset Class	**Represented by**	**1 Year**	**3 Year**	**5 Years**	**10 Years**
Large Cap US Stocks	Russell 1000	22.41%	14.75%	21.73%	7.80%
Small Cap US Stocks	Russell 2000	24.90%	13.18%	24.31%	8.53%
Non-US Stocks (Developed)	MSCI EAFE	17.56%	7.21%	16.02%	6.53%
Non-US Stocks (Emerging)	MSCI Emerging Mkts	-1.07%	-2.54%	14.83%	10.45%
US Bonds	BC Aggregate	-0.10%	3.75%	4.80%	4.46%
High Yield Bonds	BC High Yield Credit	7.54%	9.00%	18.25%	8.68%
Non-US Sovereign Debt	Citi World Gov't Bond ex US	2.43%	1.37%	4.15%	4.27%
Inflation Protected	BC Global Inflation Linked	0.45%	4.57%	6.78%	5.20%
Real Estate	NCREIF Property	11.17%	11.69%	7.89%	8.65%
Timber	NCREIF Timberland	9.78%	6.59%	2.86%	8.33%
Cash	3 Month T-Bill	0.07%	0.08%	0.12%	1.65%
TFFR Total Fund (Gross)		14.02%	8.85%	14.80%	7.04%
TFFR Total Fund (Net)		13.68%	8.50%	14.37%	6.43%
TFFR Total Fund Policy		12.47%	7.95%	14.24%	7.14%

US Equities were the strongest performing sector for the year ended March 31, 2014 (up 22%), followed by International Equities (up 17%), Real Estate (up 11%), Timber (up 9%) and High Yield Bonds (up 7%), while major bond indices struggled with the Barclays Aggregate declining 0.1%.

Source: Callan

Unaudited

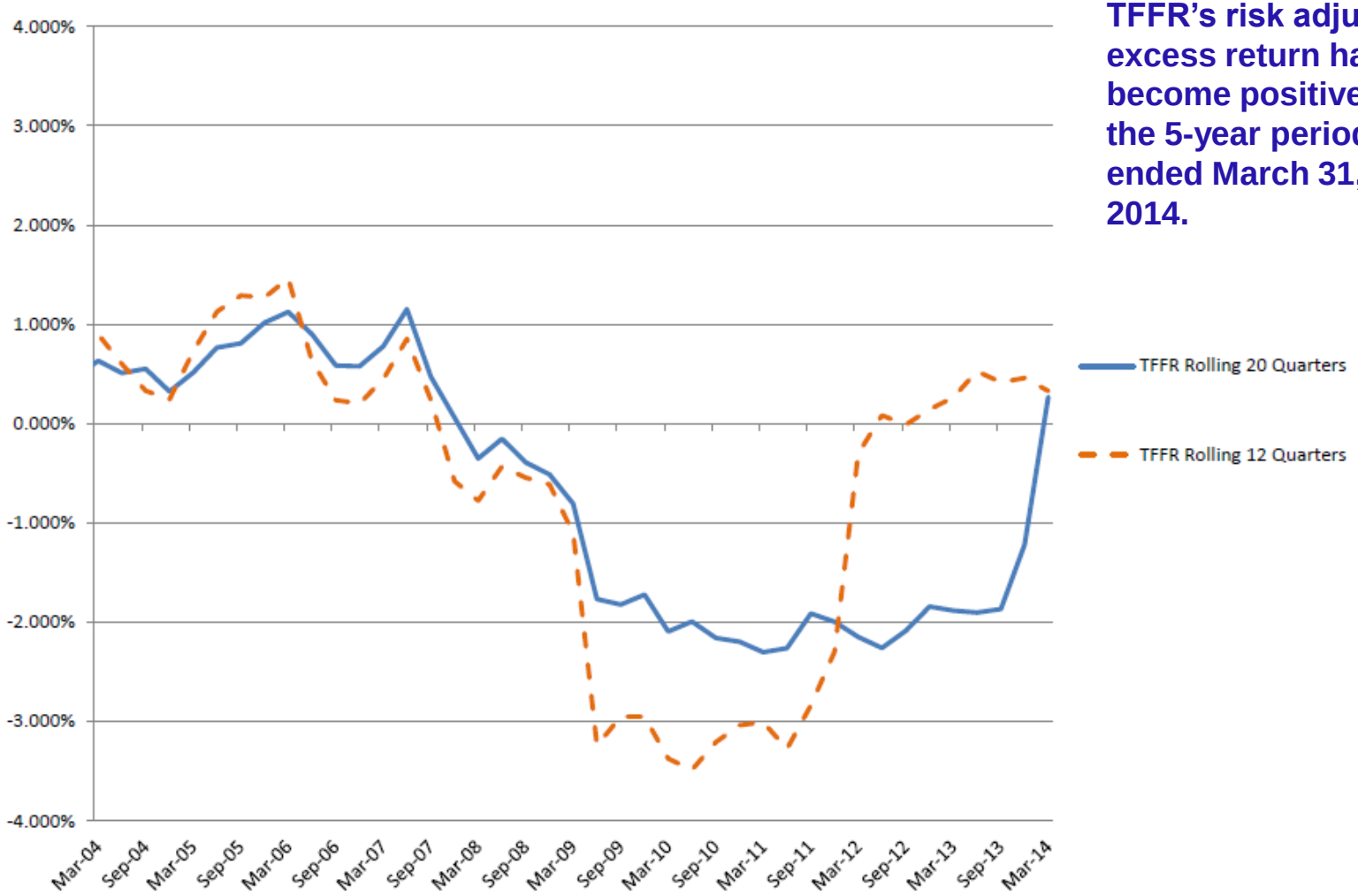
Excess Return Relative to Policy Benchmark
10 Years Ended 3/31/2014



TFFR's excess return was approximately 0.6% for the 3-years ended March 31, 2014.

Unaudited

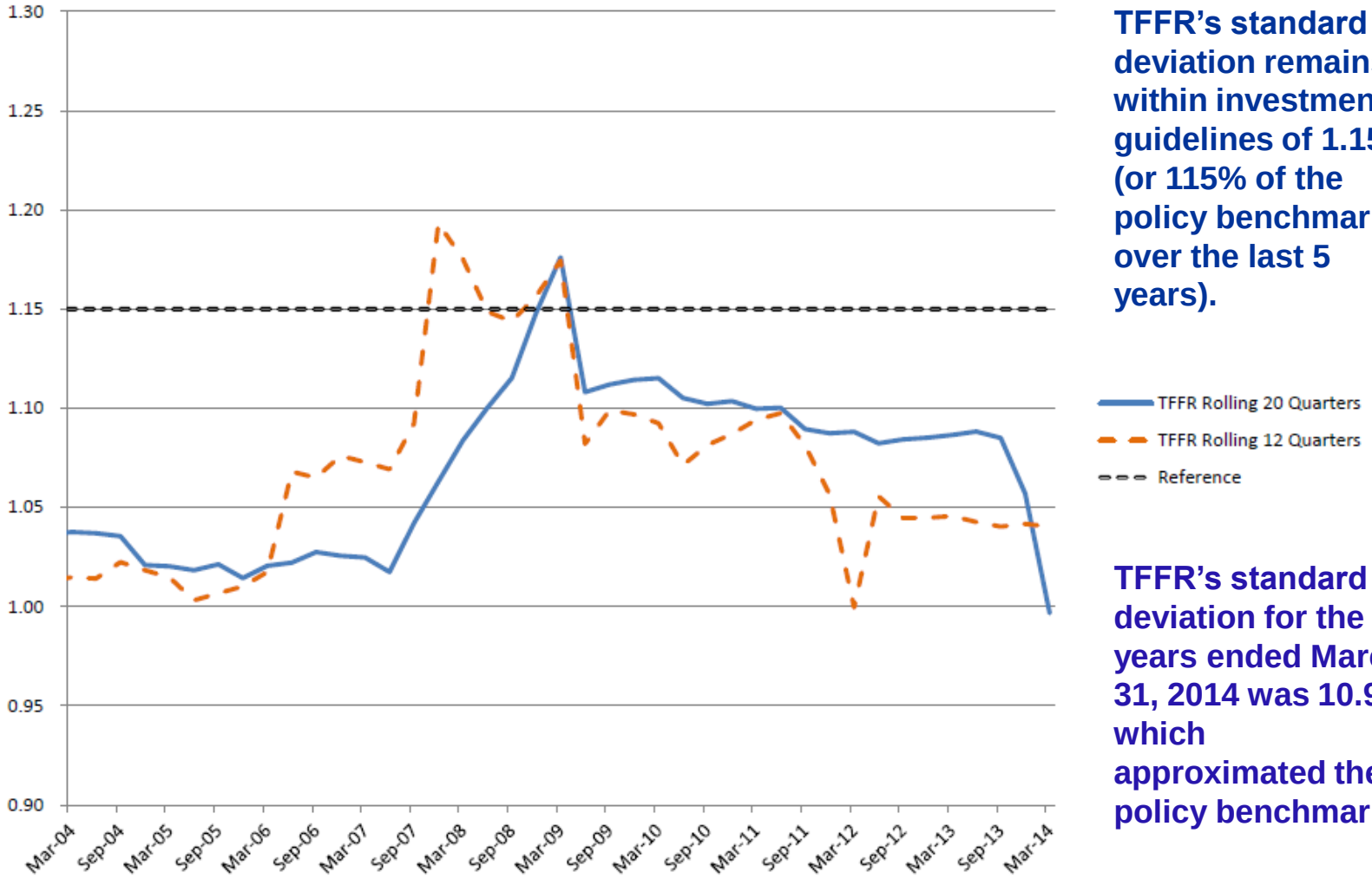
Risk Adjusted Excess Return
10 Years Ended 3/31/2014



TFFR's risk adjusted excess return has become positive for the 5-year period ended March 31, 2014.

Unaudited

Relative Standard Deviation Relative to Policy Benchmark
10 Years Ended 3/31/2014

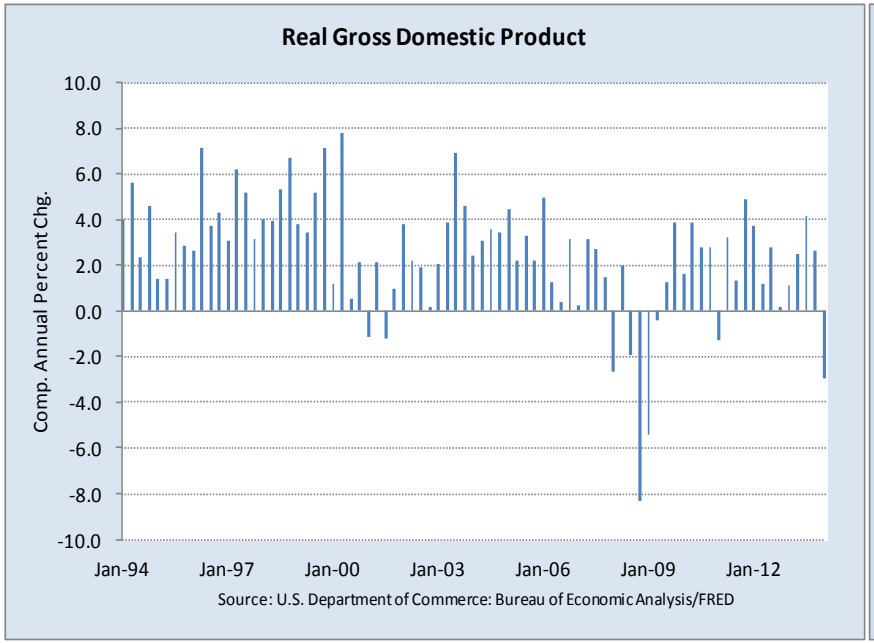


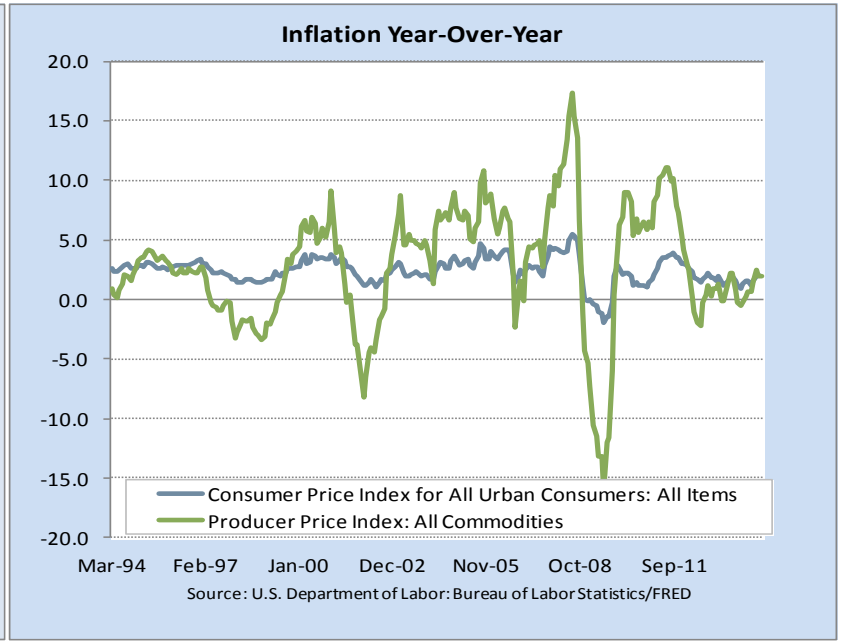
TFFR's standard deviation remains within investment guidelines of 1.15 (or 115% of the policy benchmark over the last 5 years).

TFFR's standard deviation for the 5-years ended March 31, 2014 was 10.9% which approximated the policy benchmark.

Unaudited

U.S. Economy
Quarter Ending March 31, 2014



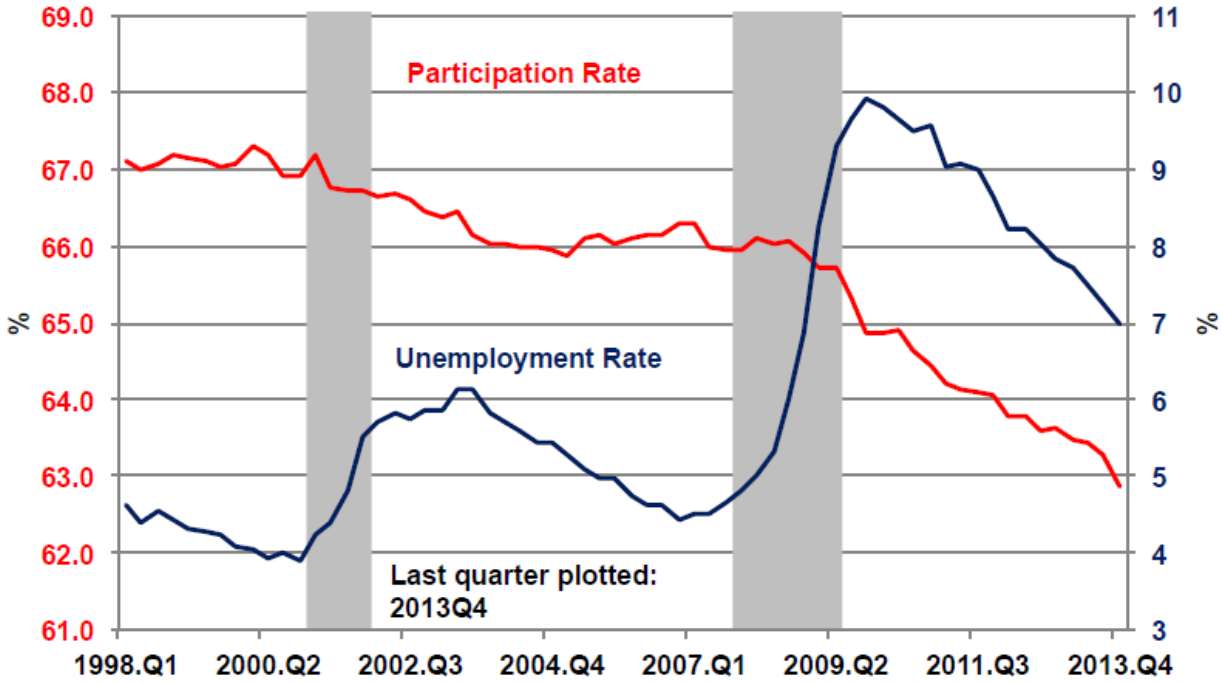


- In June, 1st Qtr. GDP was revised down from -1.0% to -2.9%. This was the worst decline since Q1 of 2009 (due to health care spending).
- Inflation remains subdued: For the 12-months ending March, headline and core CPI (w/o food and energy) increased over the trailing year by 1.5% and 1.7%, respectively.
- The unemployment rate was static from last quarter holding steady at 6.7%.
- Private sector employment has added 8.9 million jobs since February 2010.

Source: Callan

Fewer Participants in Labor Force

Retirements became a meaningful factor in 2010

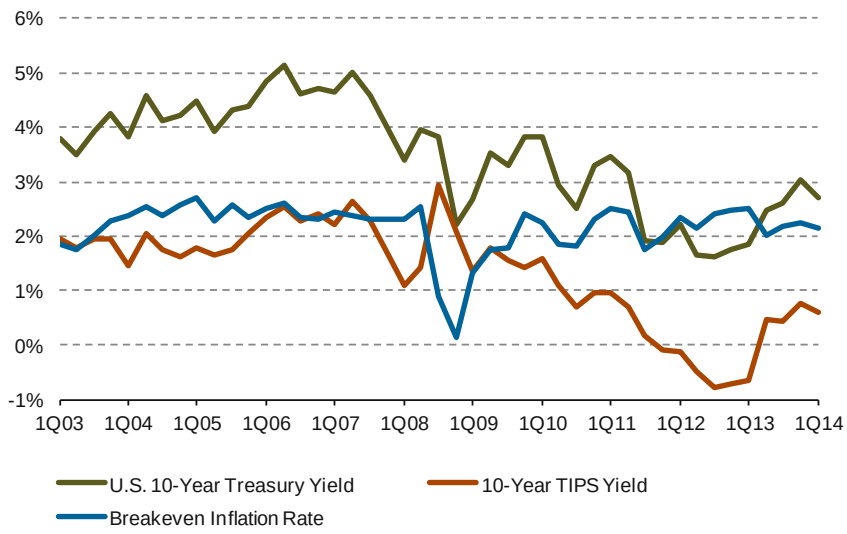


Source: "On the Causes of Declines in the Labor Force Participation Rate," Shigeru Fujita, Federal Reserve Bank of Philadelphia, Feb., 2014

- Three reasons have been postulated for declines in the labor force participation rate:
  - Retirement
  - Disability
  - Returning to school

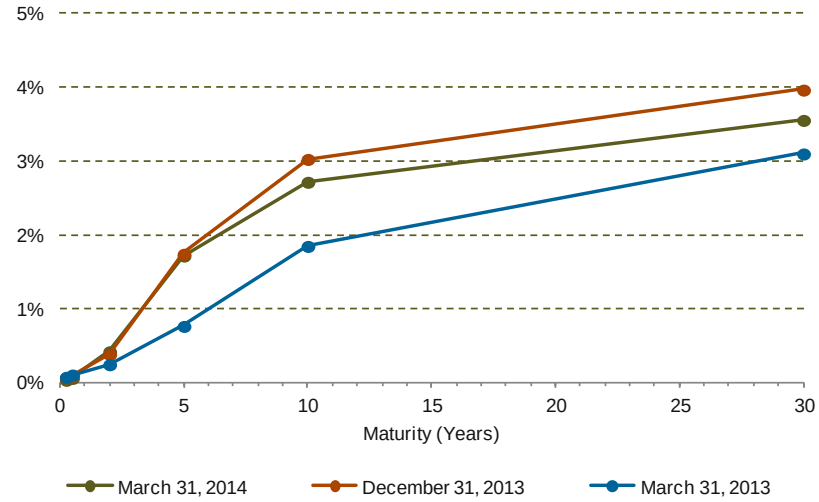
Yield Curve Changes
Periods Ending March 31, 2014

Historical 10-Year Yields



Source: Bloomberg.

U.S. Treasury Yield Curves

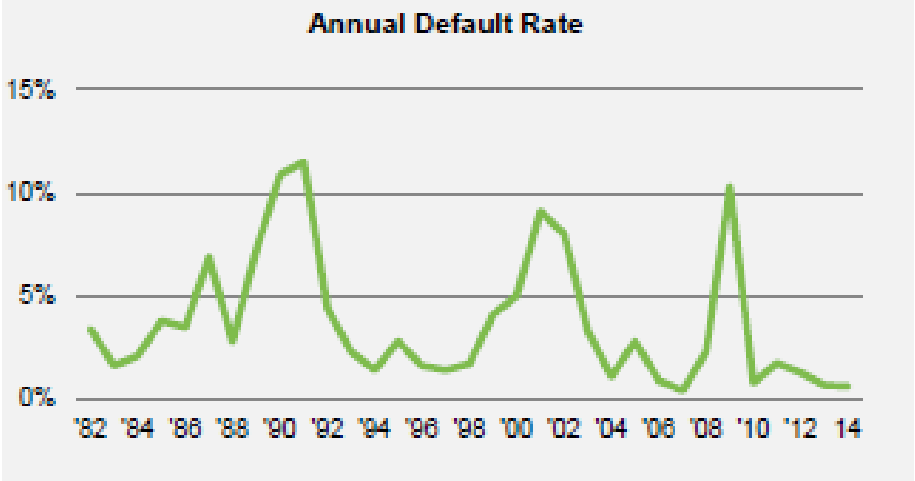


Source: Bloomberg.

- The long-end of the yield curve fell which increases the Total Return of longer maturity Treasurys.
- Ten-year Treasury yields declined 31 basis points between 12/31/13 and 3/31/14 (at 2.73%).
- Rates have continued to trend downward, although with some volatility, with the 10-year hitting 2.6% on May 1 and 2.5% on the morning of July 17, 2014.

Source: Callan

Default Rates on High Yield are near historic lows



	Default Rate
Current	0.6%
Average	3.6%
Median	2.7%
High	11.5%
Low	0.4%

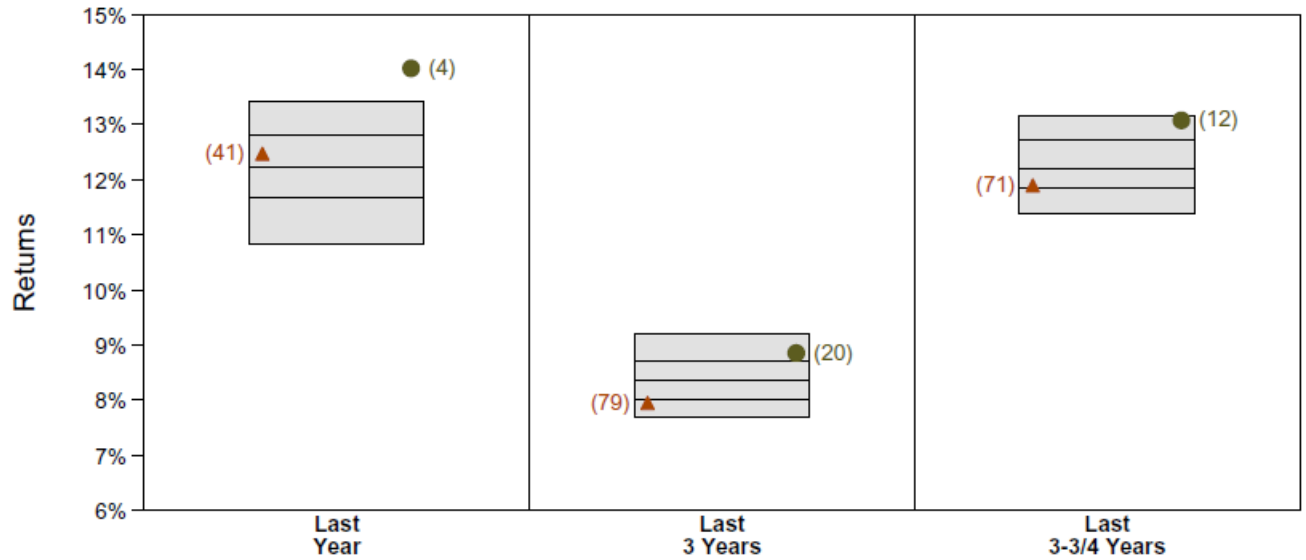
Sources: Eaton Vance, JPMorgan

- Default rates as of March 31, 2014 were near historic lows.
- While some investors argue that low default rates make higher yielding assets an attractive opportunity, others see the past as prologue: defaults will come back into the cycle.

Source: Callan

Public Fund Peer Comparison
For the periods ended March 31, 2014

Asset Allocation Adjusted Ranking



	Last Year	Last 3 Years	Last 3-3/4 Years
10th Percentile	13.43	9.20	13.17
25th Percentile	12.81	8.70	12.73
Median	12.23	8.35	12.19
75th Percentile	11.66	7.99	11.83
90th Percentile	10.83	7.70	11.38
Total Fund ●	14.02	8.85	13.07
Policy Target ▲	12.47	7.95	11.90

Gross Returns: When adjusted for asset allocation as compared to public fund peers, the TFFR Fund generated 1st quartile returns for the 1-, 3-, and 3 ¾ year periods ended March 31, 2014.

Note: TFFR Fund and peer performance are based on unaudited gross returns. *Source: Callan*

ND STATE INVESTMENT BOARD MEETING

Friday, July 25, 2014, 8:30 a.m.
State Capitol, Peace Garden Room
Bismarck, ND

I. APPROVAL OF AGENDA

II. APPROVAL OF MINUTES (JUNE 27, 2014)

III. ELECTION OF OFFICERS 2014-15

A. Chair
B. Vice Chair
C. Parliamentarian (Appointed by Chair)

IV. AUDIT COMMITTEE MEMBERSHIP 2014-15 (Board Acceptance) - Mr. Hunter (enclosed) (5 min)

V. INVESTMENTS

A. Private Capital Overview - Mr. Hunter (enclosed) (15 min)
B. Timber Review - Mr. Hunter (enclosed) (30 min)

VI. GOVERNANCE

A. Executive Review Committee Report - Mr. Lech (enclosed)
B. Code of Conduct Certification - Mr. Schmidt (enclosed) (5 min)
C. Governance Preview - Mr. Hunter (to follow) (5 min)

VII. QUARTERLY MONITORING - 6/30/14 (enclosed). (Questions Only - Board Acceptance) (5 min)

A. Executive Limitations/Staff Relations - Mr. Hunter
B. Budget and Financial Conditions - Ms. Walcker
C. Investment Program - Mr. Schulz
D. Retirement Program - Ms. Kopp
E. Watch List - Mr. Hunter

========== BREAK ==========

VIII. EDUCATION

Callan College - (90 min)

IX. OTHER.

SIB meeting - August 22, 2014, 8:30 a.m. - Peace Garden Room, State Capitol
SIB Audit Committee meeting - September 26, 2014, 1:00 p.m. - Peace Garden Room, State Capitol

X. ADJOURNMENT.

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

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JUNE 27, 2014, BOARD MEETING

MEMBERS PRESENT:
Drew Wrigley, Lt. Governor, Chair (TLCF)
Mike Sandal, Vice Chair
Clarence Corneil, Parliamentarian, TFFR Board
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner (TLCF)
Rob Lech, TFFR Board
Kelly Schmidt, State Treasurer
Cindy Ternes, WSI designee
Tom Trenbeath, PERS Board

STAFF PRESENT:
Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Cody Schmidt, Compliance Officer
Darren Schulz, Deputy CIO

OTHERS PRESENT:
Matthew Chilewich, AQR Capital Mgmt
Donald Elefson, Axiom Intl Investors
Jeff Engleson, Land Dept.
Jacques Friedman, AQR Capital Mgmt
Bill Howard, Callan Associates
Mary Kay Kelsch, Attorney General's Office
Shane McMahon, Axiom Intl Investors
Bryan Reinhardt, PERS

CALL TO ORDER:

Mr. Sandal called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, June 27, 2014, at the Peace Garden Room, State Capitol, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. TRENBEATH AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE JUNE 27, 2014, MEETING AS DISTRIBUTED.

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

MINUTES:

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE MAY 23, 2014, MINUTES AS DISTRIBUTED.

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

CALLAN MANAGER SEARCH PROCESS – Mr. Howard reviewed Callan's process, involvement, and assistance to staff in the SIB's search for an emerging market equity manager.

Staff also reviewed the components of their due diligence.

EMERGING MARKET EQUITY INTERVIEWS – The SIB heard presentations from two firms; Axiom International Investors and AQR Capital Management for the emerging market equity mandate.

Mr. Hunter and Mr. Schulz provided their insights on the search and after their extensive due diligence, along with Callan's investment consulting team, recommended Axiom International Investors to manage approximately $110 million in the Pension Trust's emerging market equity pool.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY COMMISSIONER GAEBE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND CONTRACT WITH AXIOM INTERNATIONAL INVESTORS SUBJECT TO SATISFACTORY NEGOTIATION OF LEGAL DOCUMENTATION INCLUDING REVIEW AND APPROVAL BY COUNSEL.

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

The Board recessed at 9:50 a.m. and reconvened at 10:00 a.m.

WESTRIDGE/WG TRADING

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO ENTER INTO EXECUTIVE SESSION FOR ATTORNEY CONSULTATION PER NDCC §44-04-19.1(5) AND NDCC §44-04-19.2.

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

The SIB entered into executive session at 10:02 a.m. and exited at 10:10 a.m. The SIB, Ms. Kelsch, and staff were present.

The SIB took no action from the Executive Session discussion and thus any pending legal action will be null and void.

MANAGER CATALOG - Ms. Flanagan reviewed an updated catalog that is provided to the SIB on an annual basis. The catalog lists each money manager and their mandates for the Pension Trust and Insurance Trust.

ASSET AND INVESTMENT PERFORMANCE UPDATE – Mr. Hunter provided an update on SIB assets under management. Client assets grew by $1.56 billion (or 20.9%) between June 30, 2013, and April 30, 2014. The Pension Trust had net investment growth of 12.6% (or $515 million) and the Insurance Trust had 6.2% (or $204 million). The Legacy Fund assets increased by over 68% (or $815 million) primarily due to tax collections. Based on preliminary valuations, the market value of the SIB clients' assets was approximately $9 billion as of April 30, 2014.

Mr. Hunter also updated the SIB on strategic initiatives as of June 27, 2014.

LEGISLATIVE UPDATE – Staff presented to the Employee Benefits Programs Committee on June 5, 2014, and reviewed a draft of Bill 135 which modifies investment policies for and funds under the management of the SIB.

Staff also presented to the Legacy and Budget Stabilization Fund Advisory Board on June 16, 2014. Staff reviewed status, asset allocation, fees (in basis points) charged by investment advisers, and returns of the Legacy Fund and Budget Stabilization Fund.

AUDIT COMMITTEE UPDATE – Mr. Gessner updated the SIB on the Audit Committee activities from their May 23, 2014, meeting. The Committee heard from Clifton/ Larson/Allen on their audit approach of the Retirement and Investment Office (RIO) financial statements for the period of July 1, 2013 thru June 30, 2014. The critical areas Clifton/Larson/Allen will be focusing on are investments, contributions, benefit payments, and actuarial data. The final audit report is scheduled to be completed September/October 2014.

Clifton/Larson/Allen and staff reviewed, discussed, and shared implementation plans of GASB Statement 67 financial reporting for pension plans which goes into effect fiscal year end June 30, 2014, Statement 68 accounting and financial reporting for pensions which goes into effect fiscal year end June 30, 2015, and Statement 71 which provides additional transition guidance.

Mr. Gessner also stated staff continues to make progress on internal audit activities i.e., school district audits and miscellaneous audits.

IT WAS MOVED BY MR. CORNEIL AND SECONDED MR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE AUDIT COMMITTEE REPORT.

AYES: 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

Executive Survey Discussion – The SIB discussed the Executive Limitations process and compensation review of the Executive Director.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. TRENBEATH AND CARRIED BY A ROLL CALL VOTE THAT IN RECOGNITION OF A SUCCESSFUL COMPLETION OF A SIX MONTH APPOINTMENT THE SIB AUTHORIZE A 5 PERCENT SALARY INCREASE FOR THE ED/CIO AND ALSO ASK THE CHAIRMAN TO APPOINT A COMMITTEE TO REVIEW THE EVALUATION SYSTEM PROCESS AND TO PUT IN PLACE RECOMMENDATIONS FOR ONGOING COACHING AND EVALUATION OF THE ED/CIO.

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

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. CORNEIL AND CARRIED BY A ROLL CALL VOTE TO CREATE A COMMITTEE WHOSE TASK WOULD BE TO RECOMMEND AN EVALUATION SYSTEM FOR THE ED/CIO INCLUDING COMPENSATION AND A TIMELINE FOR EVALUATIONS AND COMPENSATION.

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

NAYS: NONE
MOTION CARRIED

SIB members volunteering to serve on the Executive Review Committee are Mr. Lech, Chair, Ms. Ternes, and Mr. Sandal.

FY2015 Agenda – Mr. Hunter reviewed a tentative annual agenda and strategic initiatives for Fiscal Year 2015 for staff and SIB planning purposes.

Staff Update - Mr. Hunter stated the Supervisor of Audit Services was posted on June 24, 2014, and the Investment Analyst position will be posted on June 27, 2014. Mr. Hunter thanked HRMS staff, Mr. Lynn Hart and Ms. Becky Sicble, for their guidance, support, and their analysis of the positions to expedite the process of classification and posting.

OTHER:

Next SIB Meeting - July 25, 2014, 8:30 a.m. - State Capitol, Peace Garden Room
Next SIB Audit Committee meeting - September 26, 2014, 1:00 p.m. - State Capitol, Peace Garden Room

ADJOURNMENT:

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 11:50 a.m.

_____
Mr. Sandal, Vice Chair
State Investment Board

_____
Bonnie Heit
Assistant to the Board

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
MAY 23, 2014, BOARD MEETING

BOARD MEMBERS PRESENT:

Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner (TLCF)
Rob Lech, TFFR Board
Howard Sage, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, WSI designee
Kim Wassim, PERS Board

BOARD MEMBERS ABSENT:

Clarence Corneil, Parliamentarian, TFFR Board

STAFF PRESENT:

Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Fay Kopp, Deputy ED/CRO
Cody Schmidt, Compliance Officer
Darren Schulz, Deputy CIO

OTHERS PRESENT:

Weldee Baetsch, former PERS/SIB trustee
Paul Erlendson, Callan Associates
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, May 23, 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 MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 23, 2014, MEETING AS DISTRIBUTED.

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

MINUTES:

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE APRIL 25, 2014, MINUTES AS DISTRIBUTED.

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

INVESTMENTS:

Asset and Performance Overview - Mr. Hunter provided statistics for the period ending March 31, 2014. Client assets under management grew by $1.45 billion (19.5%) between June 30, 2013 and March 31, 2014. The market value of client assets approximated $8.9 billion (based on preliminary valuations). Net investment income was responsible for gains of over $500 million (12%) for the Pension Trust and $184 million (5.6%) for the Insurance Trust. The Legacy Fund assets increased by over $735 million (61%) primarily due to tax collections.

Current fiscal year to date excess returns were positive for all non-liquidating Pension Trust clients and ranged from 0.17% to 0.47% with the Public Employees Retirement System (PERS) at 0.38% and the Teachers' Fund for Retirement at 0.47%. All Pension Trust clients generated positive excess returns for the 1, 3, and 5 year periods ended March 31, 2014 with two exceptions. PERS returns for the last 5 years were 0.18% below the policy benchmark (13.9% vs 14.1%). The Grand Forks Park District returns for the last 3 years were 0.1% below the policy benchmark (9.3% vs. 9.4%).

The Insurance Trust clients generated positive excess returns for the 1, 3, and 5 year periods ended March 31, 2014. Current fiscal year to date excess returns were generally positive and ranged from 1.0% to 1.9% with two exceptions. PERS Retiree Health and PERS Group Insurance were both below policy benchmark (0.03%). The Legacy Fund generated 1.18% of excess return (vs. policy benchmark) for the current fiscal year to date (4.2% vs. 3.0%), while Workforce Safety & Insurance posted 1.4% of excess return (8.3% vs. 6.9%).

Callan Associates - Mr. Erlendson provided a domestic economic update for the period ending March 31, 2014, and also provided performance analysis of the Pension Trust and Insurance Trust for the period ending March 31, 2014.

The Board recessed at 10:09 and reconvened at 10:20 am

Return Definitions - Mr. Schulz reviewed various ways to calculate performance measurement and where each method is applicable and where it is not applicable. Mr. Schulz also reviewed some enhancements staff is contemplating utilizing with respect to performance reporting.

GOVERNANCE:

Workforce Safety & Insurance - Mr. Hunter and Ms. Ternes presented a revised Investment Policy Statement for the Workforce Safety & Insurance Fund as a result of the asset allocation study completed in April 2014.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE INVESTMENT POLICY STATEMENT FOR THE WORKFORCE SAFETY & INSURANCE FUND.

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

Staff Update - Mr. Hunter provided an update on office staff. Mr. Richard Nagel assumed the role of Information System's Supervisor effective April 1, 2014, and Mr. Michael DeWitt assumed the role of Data Processing Coordinator effective April 28, 2014.

Applications for the Audit Supervisor position were reviewed after the closing date of March 18, 2014. After reviews and interviews, the position will be posted again in June 2014.

Staff is working with HRMS on the proper classification for the Investment Analyst position which is scheduled to be posted in June.

Board Education - Mr. Hunter reviewed proposed educational topics for the SIB which will be incorporated into the regularly scheduled meetings of the SIB.

OTHER:

Mr. Sage stated the May 23, 2014, meeting will be his last meeting representing PERS on the SIB. Mr. Sage's term concludes on June 30, 2014, and he has decided to not seek reappointment. Mr. Sage has served on the SIB since July 19, 1989, representing the PERS active members and then retired members. The SIB thanked Mr. Sage for his many years of service and wished him well.

The next SIB meeting is scheduled for June 27, 2014, at 8:30 am in the Peace Garden Room, State Capitol, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for May 23, 2014, at 1:00 pm in 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 11:03 a.m.

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
APRIL 25, 2014, BOARD MEETING

BOARD MEMBERS PRESENT:
Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Clarence Corneil, Parliamentarian, TFFR Board
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Rob Lech, TFFR Board
Howard Sage, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, WSI designee
Kim Wassim, PERS Board

BOARD MEMBERS ABSENT:
Adam Hamm, Insurance Commissioner

STAFF PRESENT:
Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Fay Kopp, Deputy ED/CRO
Cody Schmidt, Compliance Officer
Darren Schulz, Deputy CIO
Susan Walcker, Invt Acct

OTHERS PRESENT:
Jeff Engleson, Deputy Land Commissioner
Levi Erdmann, Land Dept.
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, April 25, 2014, at the State Capitol, Peace Garden Room, 600 E Boulevard, Bismarck, ND.

A quorum was present for the purpose of conducting business.

Commissioner Hamm was absent for business travel.

AGENDA:

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE REVISED AGENDA FOR THE APRIL 25, 2014, MEETING.

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

MINUTES:

The minutes were considered from the March 28, 2014, meeting.

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE MARCH 28, 2014, MINUTES AS WRITTEN.

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

INVESTMENTS:

Asset and Performance Review - Mr. Hunter reviewed SIB assets under management. Between June 30, 2013, and for the period ending February 28, 2014, client assets grew by $1.35 billion and approached $8.8 billion based on preliminary valuations. Gains from net investment income of over 11% ($475 million) were recognized for the Pension Trust. The Insurance Trust benefitted from investment gains of 5.5% ($180 million). Legacy Fund assets grew by over 55% ($660 million) between June 30, 2013 and February 28, 2014, largely as a result of new deposits, although investment income of approximately 4% exceeded the policy benchmark.

Mr. Hunter also updated the SIB on pending projects with Callan; emerging market equity search, expansion of performance reporting for the SIB's five largest clients, The Northern Trust custody review, replacement for the WAMCO Mortgage Backed Securities mandate, and Callan College educational opportunities.

Staff will also be working with Callan to review the private capital structures to maximize the opportunities in each of the mandates and also the fixed income strategies to confirm sector allocations relative to long-term strategic goals and performance.

Mr. Hunter also stated Loomis, PIMCO, and WAMCO will remain on the Watch List. Staff as well as Callan are monitoring each manager's status and will provide updates to the SIB as conditions improve.

Workforce Safety & Insurance (WSI) Asset Allocation Study - Mr. Hunter stated Callan completed an asset allocation study for WSI and reviewed the results and options with the WSI Board of Directors on April 16, 2013. The WSI Board of Directors approved the study and requested the SIB's acceptance and subsequent implementation.

For the record, the results of the asset allocation study were previously reviewed and approved by the Governor.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE WSI ASSET ALLOCATION STUDY.

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

Westridge/WG Trading - Ms. Murtha requested the SIB enter into Executive Session to discuss the tolling agreement with Deloitte.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SAGE AND CARRIED ON A VOICE 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: 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
ABSETN: COMMISSIONER HAMM

The SIB entered into Executive Session at 9:29 a.m. and exited at 9:56 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.

The Board recessed at 10:00 am and reconvened at 10:08 am

EDUCATION:

Manager Searches - Mr. Hunter reviewed with the SIB Callan's manager search process, factors to consider, and the key players involved when a search takes place.

Securities Litigation - Ms. Murtha provided an educational segment on securities lending: what is securities lending; what the SIB's current practice is; and options to amend the current practice if so desired. The SIB and Ms. Murtha will continue to discuss and review this topic.

Cost of Doing Business - Mr. Hunter briefly reviewed a 2013 US Funds and Trust Cost of Doing Business Survey by Callan and compared some of the results to the SIB's program.

GOVERNANCE:

Staff Update - Mr. Hunter provided an update on office staff. Mr. Richard Nagel assumed the role of Information System's Supervisor effective April 1, 2014, and Mr. Michael DeWitt will assume the role of Data Processing Coordinator effective April 28, 2014.

Applications for the Audit Supervisor position were reviewed after the closing date of March 18, 2014. After reviews and interviews, the position will be posted again in June 2014.

The Investment Analyst position is scheduled to be posted in June.

Board of Medical Examiners - At the SIB's July 26, 2013, meeting, the Board gave staff preliminary approval to move forward with potentially contracting with the State Board of Medical Examiners for investment services. Staff has been working with the State Board of Medical Examiners in finalizing an investment policy statement for assets of approximately $1.8 million. Mr. Schulz informed the SIB the Industrial Commission has approved allowing the State Board of Medical Examiners to join the SIB program and requested the SIB accept the investment policy statement as presented. Mr. Schulz also requested a waiver on the SIB's policy of allowing clients to enter the investment program only at quarter end. The State Board of Medical Examiners assets have been liquidated and the client would like the assets invested effective May 1, 2014.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. SAGE TO ACCEPT THE STATE BOARD OF MEDICAL EXAMINERS INVESTMENT POLICY STATEMENT AND ALSO APPROVE THE REQUESTED WAIVER.

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

MONITORING:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. WASSIM AND CARRIED BY A VOICE VOTE TO ACCEPT THE FOLLOWING MONITORING REPORTS: BUDGET/FINANCIAL CONDITIONS, EXECUTIVE LIMITATIONS/STAFF RELATIONS, INVESTMENT PROGRAM, RETIREMENT PROGRAM, AND THE WATCH LIST.

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

OTHER:

The next SIB meeting is scheduled for May 23, 2014, at 8:30 am in the Peace Garden Room, State Capitol, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for May 23, 2014, at 1:00 pm in 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 11:35 a.m.

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board

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

BOARD MEMBERS PRESENT:
Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Clarence Corneil, Parliamentarian, TFFR Board
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Rob Lech, TFFR Board
Howard Sage, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance designee
Tom Trenbeath, PERS Board

BOARD MEMBERS ABSENT:
Adam Hamm, Insurance Commissioner

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:
Jeff Engleson, Deputy Land Commissioner
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, March 28, 2014, at the State Capitol, Peace Garden Room, 600 E Boulevard, Bismarck, ND.

A quorum was present for the purpose of conducting business.

Commissioner Hamm was absent attending a National Association of Insurance Commissioners meeting.

AGENDA:

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

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

MINUTES:

The minutes were considered from the February 28, 2014, meeting.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE FEBRUARY 28, 2014, MINUTES AS WRITTEN.

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

INVESTMENTS:

Asset and Performance Review - Mr. Hunter stated the market value of the SIB client assets was nearing $8.7 billion as of February 28, 2014. During the last six months of 2013, client assets under management grew by $1.1 billion and exceeded $8.5 billion at year-end; the Legacy Fund assets increased by over 47% primarily due to tax collections; and the Pension Trust and Insurance Trust both had gains of 10% and 3.5% respectively due to net investment income.

During the last 1, 3, and 10 year periods ending December 31, 2013, the Pension Trust generated investment returns which were in the second quartile of Callan Associates public fund sponsor database primarily due to manager selection and active management.

During the last 1, 3, and 5 year periods ending December 31, 2013, the Insurance Trust generated investment returns which were in the first or second quartile of Callan Associates public fund sponsor database on an asset allocation adjusted basis, also primarily due to manager selection and active management.

Staff also provided updates on relationship reviews, future fee savings, and upcoming projects.

Service Review - Staff conducted an on-site visit with Callan Associates on March 20, 2014, and reviewed the search process Callan will utilize when searching for an additional emerging market equity manager for the SIB program. Staff is planning to bring at least three firms before the SIB for their consideration.

Mr. Hunter also reviewed a working draft which defines each manager's mandate and the percentage of assets managed in the SIB program; i.e. market value of the assets managed, returns, standard deviation and risk, excess returns, and fees.

Watch List - Mr. Hunter and Mr. Schulz conducted an on-site review with Western Asset Management Company (WAMCO) on March 19, 2014, to discuss the Securities and Exchange Commission/US Department of Labor settlements and the turnover in personnel who have oversight of the SIB's mortgage backed securities mandate. After their review with WAMCO and taking into consideration Callan Associates views, staff recommends a search be conducted for the mortgage backed securities mandate because of the recent regulatory settlement and turnover in senior personnel who oversee the mandate.

Staff also met with PIMCO representatives on March 19, 2014, and recommend that all PIMCO strategies remain on the watch list because of significant turnover in personnel at the senior level.

Staff and Treasurer Schmidt also met with Loomis Sayles on March 11, 2014, and recommend the firm remain on the watch list until short-term performance improves.

The Board recessed at 9:50 am and reconvened at 10:05 am

Custody Review - Mr. Hunter informed the SIB staff has elected to retain Callan to conduct an in-depth trust, custodial, and securities lending review of The Northern Trust to confirm service standards and fee levels. Staff looked at five firms and opted to retain Callan primarily because they are considered an industry leader in this field and also because of their familiarity with the operations of the SIB program.

GOVERNANCE:

Staffing Update - Mr. Hunter provided an update on office staff. Mr. Gary Vetter, Supervisor of Information Systems, will retire on March 31, 2014, and Mr. Rich Nagel has been promoted to the position effective April 1, 2014. Candidates were interviewed for Mr. Nagel's previous position, Data Processing Coordinator III, and Mr. Hunter stated he is realizing the market to attract and retain qualified candidates is challenging at the current levels the Retirement and Investment Office (RIO) is offering. Staff will look at options to address these issues when developing their budget for the next biennium.

The Audit Supervisor position was reposted and re-readvertised in March 2014 with the closing date scheduled for March 18, 2014.

Audit Committee Update - Mr. Gessner updated the SIB on the Audit Committee's activities from their February 28, 2014, meeting. 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.

The Audit Supervisor position has been vacant since July 2013 and the audit 2013/14 work plan is being adjusted as necessary. The Audit Division, in the interim, is addressing activities that are of most importance to the SIB Audit Committee, RIO management, and the external auditors.

Meetings are also being coordinated between RIO staff, 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.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. LECH TO ACCEPT THE AUDIT COMMITTEE'S ACTIVITY REPORT.

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

Litigation Monitoring - Ms. Murtha reviewed with the SIB her findings on what other public pension plans are doing regarding board education and the firms retained for securities litigation monitoring. Ms. Murtha will be providing education on securities litigation monitoring to the SIB at their April 25, 2014, meeting.

Callan College - Mr. Hunter provided dates on when Callan Associates will be conducting their "Callan College" 2014 sessions. Discussion followed on having Callan representative's present portions of the "Callan College" to the full SIB at one of their regularly scheduled meetings. Mr. Hunter will visit with Callan regarding conducting sessions in Bismarck and will report back to the SIB.

OTHER:

The next SIB meeting is scheduled for April 25, 2014, at 8:30 am at the Peace Garden Room, State Capitol, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for May 23, 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 10:40 a.m.

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **July 17, 2014**

SUBJ: **Funding Projections**

The State Investment Board (SIB) has provided TFFR with a preliminary estimate of approximately 16% return for the fiscal year ended June 30, 2014. A great year in the financial markets, and one which we all welcome☺.

As you know, each year TFFR has Segal prepare estimates of the funded status of the plan going forward based upon various investment return scenarios. Attached are charts for the TFFR plan (based on 2013 valuation report) showing the projected funded status of the plan based upon investment returns from -24% to + 24% for the year ended 6-30-14. By focusing on the 16% line, you can see that this year's 16% return has a positive impact on TFFR's long term funding status (assuming investment returns average 8% every year into the future).

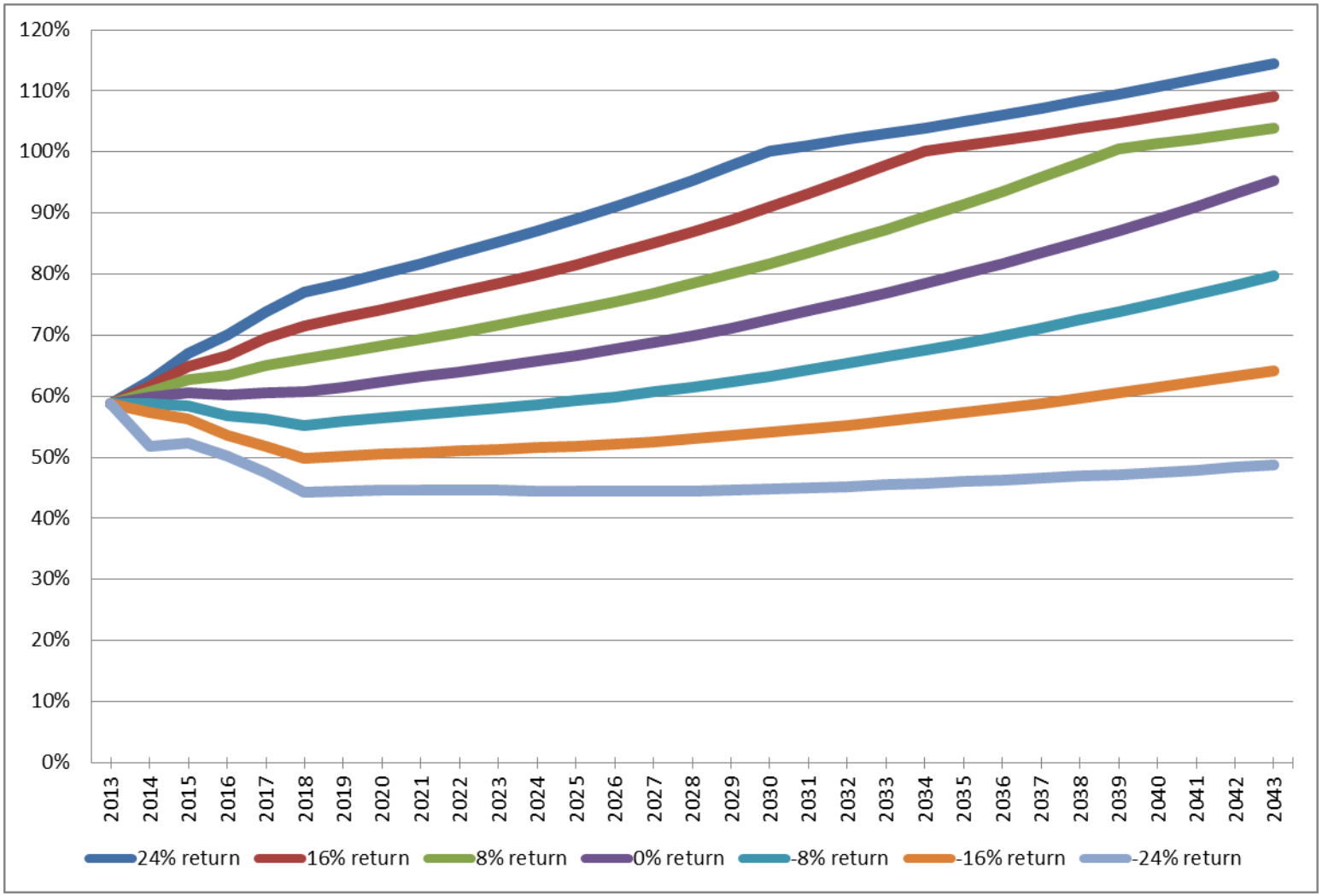
Keep in mind that funding projections could change dramatically each year based on the current year's actual return (especially if actual returns are much greater or much less than the 8% return assumption). Therefore, it is also important to consider trend lines and ranges. Take a look at the last chart which predicts TFFR funding if the plan earns 7%, 8%, or 9% average returns over the next 30 years. This picture provides a more balanced view of long term funding levels.

Enclosures

Projections

- Projections of estimated funded ratios for 30 years
  - Based on FY14 investment return scenarios ranging from -24% to +24%
  - Assumes Fund earns 8% per year in FY15 and each year thereafter
  - Additional projections assuming Fund earns 7% or 9% per year every year
  - All other experience is assumed to emerge as expected
- Includes contribution rate increases from HB 1134
  - Member rate is 9.75% for FY14 and increases to 11.75% for FY15 and thereafter
  - Employer rate is 10.75% for FY14 and increases to 12.75% for FY15 and thereafter
  - Increases “sunset” back to 7.75% once the funded ratio reaches 100% (based on actuarial assets)

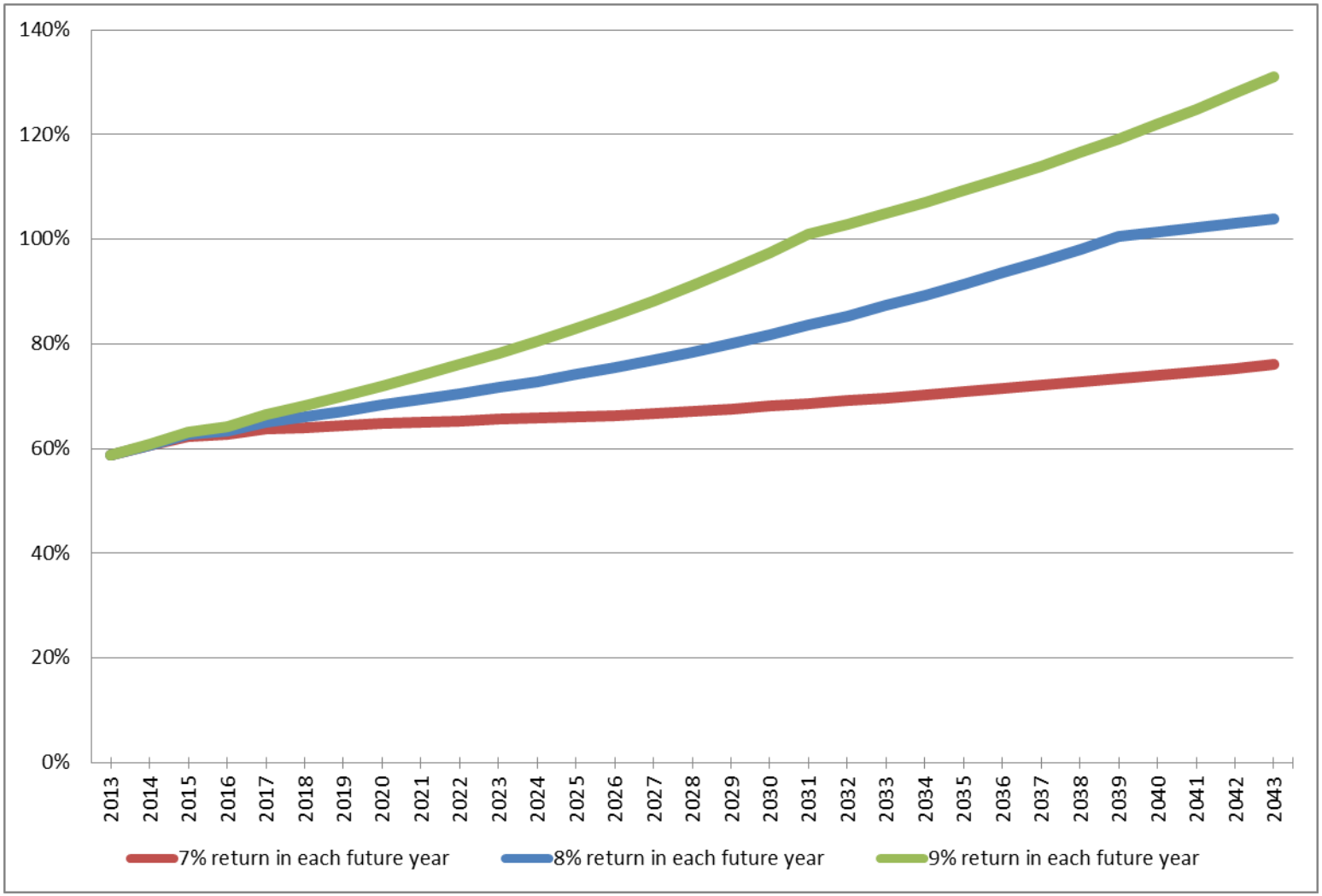
Projected Funded Ratios (AVA Basis)



Projected Funded Ratios (AVA Basis)

Valuation Year	24% for FY2014	16% for FY2014	8% for FY2014	0% for FY2014	-8% for FY2014	-16% for FY2014	-24% for FY2014
2013	59%	59%	59%	59%	59%	59%	59%
2014	63%	62%	61%	60%	59%	57%	52%
2015	67%	65%	63%	61%	58%	56%	52%
2016	70%	67%	63%	60%	57%	54%	50%
2017	74%	69%	65%	61%	56%	52%	47%
2018	77%	72%	66%	61%	55%	50%	44%
2023	85%	78%	72%	65%	58%	51%	45%
2028	95%	87%	78%	70%	61%	53%	45%
2033	103%	98%	87%	77%	66%	56%	45%
2038	108%	104%	98%	85%	72%	60%	47%
2043	114%	109%	104%	95%	80%	64%	49%

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



STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
MAY 23, 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: Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assistant to the Audit Committee
David Hunter, Executive Director/CIO
Fay Kopp, Deputy Executive Director/CRO
Shelly Schumacher, Retirement Program Manager
Dottie Thorsen, Internal Auditor

OTHERS: Jason Ostroski, CliftonLarsonAllen

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, May 23, 2014, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 23, 2014, MEETING AS DISTRIBUTED.

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

MINUTES:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE FEBRUARY 28, 2014, MINUTES AS DISTRIBUTED.

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

AUDIT SCOPE:

Mr. Ostroski reviewed the engagement scope for the audit of the Retirement and Investment Office's (RIO) financial statements as of June 30, 2014. The critical areas CliftonLarsonAllen would be focusing on would be investments, contributions, benefit payments, and actuarial data. The final audit report is scheduled to be completed September/October 2014.

Mr. Ostroski also reviewed GASB Statement 67 financial reporting for pension plans which goes into effect fiscal year end June 30, 2014, Statement 68 accounting and financial reporting for pensions which goes into effect fiscal year end June 30, 2015, and Statement 71 which provides additional transition guidance.

GASB 67/68 IMPLEMENTATION:

Ms. Kopp updated the Audit Committee on RIO's plans for implementation of the new pension reporting standards, GASB Statements No. 67 and No. 68. RIO staff in conjunction with the Public Employees Retirement System (PERS) and State Auditor's Office have developed a plan which includes the following: educate stakeholders and participating employers; develop the necessary information for RIO/Teachers' Fund for Retirement (TFFR) financial statements, and the information which will be sent to participating employers for inclusion in employer financial statements; and integrate this effort into the ongoing operations of the plan going forward. Ms. Kopp will continue to keep the Audit Committee apprised of developments.

EXECUTIVE LIMITATIONS AUDIT:

Mr. Hunter stated the Executive Limitation's audit will be completed for the six month period ending June 2, 2014, and also for the period ending December 31, 2014. Mr. Hunter would like to survey the State Investment Board (SIB) clients six months into his appointment as Executive Director/CIO to receive feedback on how he and RIO as a whole is functioning as far as meeting client's needs and expectations. The information will be compiled and shared with the Audit Committee.

AUDIT SUPERVISOR:

Mr. Hunter updated the Audit Committee on the status of filling the Audit Supervisor position of RIO. The position has been vacant since July 13, 2013, and the position has been posted three times on the state HRMS website and twice in the state's four major newspapers. Within that time period, two qualified applicants were determined by HRMS. One applicant withdrew their application and staff conducted a phone interview with the second applicant and determined the candidate did not possess the depth of audit experience needed for the position.

Mr. Hunter, Ms. Dorwart, and Ms. Kopp suggested that it may be in the best interest of RIO, SIB, and its clients to reconsider the duties and responsibilities of the position and possibly upgrade the position to an Auditor IV (Grade N) instead of the prior Auditor III (Grade L). This reclassification would be justified by the growth in client assets under management by the SIB which would require a higher level of responsibility and work.

Mr. Hunter requested approval from the Audit Committee to work with HRMS to possibly reclassify the Audit Supervisor position and repost the position and work towards filling the position the third quarter of 2014.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED BY A VOICE VOTE TO ACCEPT STAFF RECOMMENDATION TO WORK WITH HRMS SERVICES TO RECLASSIFY THE AUDIT SUPERVISOR POSITION.

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

AUDIT ACTIVITIES REPORT:

Ms. Thorsen reviewed internal audit activities from January 1 – March 31, 2014, period.

To date, 20 audits have been completed, two audits and two not in compliance reviews are in progress, and six notifications are ready to go. There are 41 districts left to audit in the current cycle.

Ms. Thorsen also completed the File Maintenance Audit. One exception was noted.

The Audit Committee also reviewed budgeted hours for the period ending March 31, 2014.

The Audit Committee thanked Ms. Thorsen for her willingness to work with them through the transition while striving towards meeting her goals established in the 2013-14 work plan.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. MERTZ AND CARRIED ON A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE PERIOD OF JANUARY 1 - MARCH 31, 2014.

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

WORK PLAN:

The Audit Committee work plan for 2014-15 was tabled until the Audit Supervisor position is filled in order to give that individual an opportunity to determine the areas that should be included in the audit plan.

MEETING SCHEDULE:

The Audit Committee reviewed a 2014-15 meeting schedule which reflected four regular meetings per year.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER TO ACCEPT THE 2014-15 AUDIT COMMITTEE MEETING SCHEDULE.

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

MOTION CARRIED

OTHER:

The next Audit Committee meeting is scheduled for September 26, 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 2:38 p.m.

Respectfully Submitted:

_____

Ms. Rebecca Dorwart, Chair
SIB Audit Committee

_____

Bonnie Heit
Assistant to the Audit Committee

MEMORANDUM

TO: **TFFR Board**

FROM: **Richard Nagel**

DATE: **July 24, 2014**

SUBJ: **Annual Technology Report**

1. Staff Changes
   As you know, Gary Vetter retired on April 1, 2014 and Richard Nagel was promoted into that position. Recruiting began to fill the vacancy for Data Processing Coordinator III. RIO was fortunate to have good candidates apply for the position and we hired Michael DeWitt. Michael has 8 years experience working in IT and has transitioned quite well into his duties as Data Processing Coordinator III.

2. 2011 Legislative Changes
   All 2011 legislative changes have been completed and implemented. The new contribution rates for Members and Employers went in effect on July 1, 2014. Also, programming has been completed for the Annual Statements to include benefit estimates when we run them in August 2014.

3. Member Web Services
   With the 2011 Legislative changes taking priority over the last couple years, Member Web Services had to be set to the side temporarily. This was due to budget constraints and extensive programming and testing effort to complete the legislative changes in a timely manner. However, over the past few months, we have made a lot of progress on Member Web Services. RIO has been coordinating with the vendor on a weekly basis to ensure programming and development needs stay the course with our timeline. Member Web is a top priority for RIO.

4. Agency Desktop Computers
   Our 4-year replacement cycle that was set for 2015 has been pushed off until 2017. The reason for this is the Windows 7 PC's currently used at RIO are more than capable of running for the next 3 years since they have only been in use for about 3 years.

5. Agency Portable Computers
   As of April 8, 2014, Microsoft no longer provides security updates or support for Windows XP. We currently have 2 laptops that will need to be replaced since they have Windows XP platform. These laptops will be used for internal and external office use.

6. Disaster Recovery
   In addition to RIO's disaster recovery plan, we would like to create template images so we can prepare and restore a PC in less than an hour. This will improve efficiency as well when we purchase new PC's and less time will be spent on setting each one up manually.

7. Records Retention and Purging
   We will be running scripts to delete data from CPAS database in accordance with our records retention schedule.

Future IT Initiatives:

1. Replace current color printer
2. Additional Wireless Access Point in RIO office
3. Redesign current website and also build it for usability on tablets/smartphones
4. Update Microsoft Office from 2007 to 2010
5. Research possible software for webinars
6. Electronic Board documents for board members (Rio_Ref currently in use)
7. Potential use of Tablets/Laptops

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **July 17, 2014**

SUBJ: **Annual TFFR Program Review**

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

Board responsibilities include:

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

Note: Because many Board members are no longer receiving the TFFR Program Manual in hard copy and have chosen instead to access it via the RIO Reference Library link (**www.nd.gov/rio/rio_ref/** **),** *you may not have a written copy on hand. Therefore, we have included hard copies for your use at the meeting.*

Enclosures

TFFR BOARD ACCOMPLISHMENTS 2013-14

- ✓ Celebrated TFFR's 100 year anniversary (1913-2013). Developed centennial slide show and special edition newsletter. ND RTA, ND United, and ND CEL hosted events recognizing TFFR's 100 year history during their annual conventions.

- ✓ Established and managed annual board calendar and education plan.

- ✓ Conducted annual election of officers and TFFR program review including mission, goals, policies, and by-laws.

- ✓ Approved modifications to four TFFR program policies: investment policy statement, employer reporting errors, employer reports, and Head Start program employees.

- ✓ Approved annual TFFR member and employer customer satisfaction reports, TFFR ends and statistics report, TFFR audit activities report, RIO budget and expense report, RIO technology review, and other program and statistical reports.

- ✓ Analyzed TFFR Retirement Trends and Statistics.

- ✓ Reviewed 2012 Public Fund Survey comparing NDTFFR to other statewide public pension plans.

- ✓ Received annual investment review of asset allocation, fund performance, investment expenses, investment guidelines, and goals and objectives.

- ✓ Monitored TFFR funding improvement legislative implementation activities which included contribution increases on 7/1/12 and 7/1/14, and benefit changes for new and non-grandfathered members on 7/1/13.

- ✓ Monitored, testified, and provided information on TFFR and other pension related bills during 2014 legislative interim.

- ✓ Approved bill draft for interim legislative study which updates plan language to stay current with federal Internal Revenue Code tax law changes (2015 legislative session).

- ✓ Received results of 2013 actuarial valuation and funding projections from Segal Company.

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

- ✓ Received status reports on GASB 67 and 68 implementation efforts.

- ✓ Approved contract for outside consultant (Eide Bailly) to provide consulting and training services with regard to GASB 67 and 68.

- ✓ Approved contract for outside tax counsel (Ice Miller) to review plan statutes and provide legal advice with regard to DOMA/Windsor decision.

- ✓ Received 2013 Public Pension Standards Award for Funding and Administration from PPCC.

- ✓ Received 2013 Certificate of Achievement for Excellence in Financial Reporting from GFOA.

- ✓ Approved 8 disability applications, and 1 QDRO application.

- ✓ Monitored and provided TFFR board input on RIO operations and organizational structure, Executive Director/CIO replacement, and other agency transition and organizational issues.

- ✓ Received periodic updates from SIB Audit Committee on status of TFFR employer compliance audits and other program reviews.

- ✓ Rob Lech and Mel Olson received new trustee orientation from staff.

- ✓ Received board education on GASB statements 67 and 68 and other pension topics from Segal Company.

- ✓ Received board education on TFFR Plan Overview; TFFR employer reporting; Fiduciary Duties/Ethics; and Open Records/Open Meetings.

- ✓ 2013-14 TFFR board and administrator education (external).

Mike Gessner	--		
Kim Franz	--		
Rob Lech	--		
Clarence Corneil	--		
Mel Olson	--		
Treas. Schmidt	--		
State Supt. Baesler	--		
Fay Kopp	NCTR Director's Mtg	06/14	Austin, TX

TFFR Program Monitoring Summary

2013-14

Ends Policy	Responsibility	Action	Scheduled	Completed
Mission	TFFR Board	Annual Review	July	7-25-13
Goals	TFFR Board	Annual Review	July	7-25-13
Plan Beneficiaries	TFFR Board	Annual Review	July	7-25-13
Membership Data	TFFR Board	Annual Review	July	7-25-13
	Internal Audit	Annual Report	October	10-24-13
	External Audit	CliftonLarsonAllen/Audit Comm.	October	10-24-13
	Retirement Officer	* Staff Presentations	Ongoing	
Investments	TFFR Board/SIB	Monthly Report	Ongoing	
	Investment Director	Annual Report	September	9-26-13
Retirement Services	TFFR Board	Annual Review	July	7-25-13
	Internal Audit	Annual Report	October	10-24-13
	External Audit	CliftonLarsonAllen/Audit Comm.	October	10-24-13
	Interest Groups	Annual Report	July	7-25-13
	Retirement Officer	*Staff Presentations	Ongoing	
Account Claims	TFFR Board	Annual Review	July	7-25-13
	Internal Audit	Annual Report	October	10-24-13
	External Audit	CliftonLarsonAllen/Audit Comm.	October	10-24-13
	Retirement Officer	*Staff Presentations	Ongoing	
Trust Fund Valuation	TFFR Board	Annual Review	July	7-25-13
	Segal	Annual Valuation	October	10-24-13
	Internal Audit	Annual Report	October	10-24-13
	External Audit	CliftonLarsonAllen/Audit Comm.	October	10-24-13
	Retirement Officer	*Staff Presentations	Ongoing	
Program Policies	TFFR Board	Annual Review	July	7-25-13
				9-26-13
* Ongoing RIO Staff Presentations include:				
	TFFR Accomplishments	Retirement Officer	July	7-25-13
	Customer Satisfaction	Retirement Officer	July	7-25-13
	RIO Budget Summary	Fiscal Management	September	9-26-13
	TFFR Ends & Statistics	Retirement Services	October	10-24-13
	Retirement Trends	Retirement Services	January	1-23-14
	Pension Plan Comparisons	Retirement Officer	January	1-23-14
	Technology Review	Information Tech	March	5-16-13

TFFR Board Calendar and Education Plan 2014-15

JULY 24, 2014 – 1 pm
Election of officers
TFFR Board Accomplishments
Annual TFFR Program Review
Annual Customer Satisfaction Reports
Annual Technology Review
Legislative update

***AUGUST 22, 2014 – 1 pm (tentative)**
DOMA analysis – Outside tax counsel

SEPTEMBER 25, 2014 – 1 pm
Annual TFFR investment review
Annual RIO budget and expense report
Legislative update
Education: DPI Demographic Update
ESPB Teacher Shortage Issues

OCTOBER 23, 2014 – 1 pm
2014 actuarial valuation report – Segal
GASB - Segal
Experience Study planning – Segal
Annual TFFR program audit report
Annual TFFR Ends and Statistics
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Annual pension plan comparisons
– 2014 Public Pension Survey
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MARCH 26, 2015 – 1 pm
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APRIL 23, 2015 – 1 pm
Legislative update
2014-15 Experience Study results
2015-16 Asset Liability Study planning
2015-16 board calendar and work plan
Education:

07/15/14

Memorandum

To: **TFFR Board**

From: **RIO Compliance Officer**

Date: **July 25, 2014**

RE: **Annual Affirmation of Code of Conduct Policy**

TFFR Program Policy C-3, *Board Members' Code of Conduct,* which is attached to this memorandum, details the Code of Ethical Responsibility for the TFFR Board. Item #11 of this policy indicates that each Board Member is required to reaffirm their understanding of this policy annually and disclose any conflicts of interest. Therefore, please read and sign the statement below to comply with this requirement.

"I have read and understand TFFR Program Process Policy C-3 *Board Members' Code of Conduct*. I have disclosed any conflicts of interest as required by this policy."

Name (printed) _____

Signature_____

Date_____

Detail of any conflicts of interest (if any):

Teachers' Fund for Retirement Board

Program Manual

North Dakota
Retirement and Investment Office

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck ND 58507-7100

Telephone: 701-328-9885
Toll free: 1-800-952-2970
Fax: 701-328-9897
www.nd.gov/rio
rio@nd.gov

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B. Program Ends

C. Program Policies

D. By-Laws

E. Administrative Code

F. Century Code

A. Introduction

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

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

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

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

TFFR Board

2013 - 2014 Assignments

Officers of the board

- President Mike Gessner
- Vice President Clarence Corneil

Board members serving on the SIB

- Mike Gessner
- Rob Lech
- Clarence Corneil
- State Treasurer Schmidt (ex-officio)

SIB Audit Committee

- Mike Gessner

SIB alternate

- Kim Franz

TFFR Board Members
2013-14

Active Members

Rob Lech
Superintendent
Jamestown Public School
207 2nd Ave SE
Jamestown ND 58401-4272
(w) 701-252-1950
Fax: 701-251-2011
Rob.lech@sendit.nodak.edu
Term expires: 06/30/2015

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

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

Legal Counsel

Janilyn Murtha
Attorney General's Office
600 E Boulevard Ave Dept 125
Bismarck ND 58505-0602
(w) 701-328-3148 (f) 701-328-2226
jmurtha@nd.gov

Retired Members

Clarence Corneil
2059 3rd St W
Dickinson ND 58601-2455
(w) 701-623-4339 (h) 701-225-8518
(c) 701-290-4588 or 701-590-1419
(winter)
3710 S Goldfield Rd Lot 776
Apache Junction AZ 85119-6632
Phone: 480-671-2776
Term expires: 06/30/2017

Mel Olson
2616 38th Ave S
Fargo ND 58104-7016
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(h) 701-280-6963
melolson@cableone.net
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State Officials

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State Superintendent
(Lynette 328-4572 scheduling)
Department of Public Instruction
600 East Boulevard
Bismarck ND 58505-0440
(w) 701-328-4570 (c) 701-527-4664
kbaesler@nd.gov
Fax: 701-328-2461
Term expires: 12/31/2016

Kelly Schmidt
State Treasurer
State of North Dakota
600 East Boulevard
Bismarck ND 58505-0600
(w) 701-328-2643 (c) 701-471-1346
klschmidt@nd.gov
Fax: 701-328-3002
Term expires: 12/31/2016

Interest Groups

Nick Archuleta
President
ND United
301 N 4th St
Bismarck ND 58501-4020
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nick.archuleta@ndunited.org

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Gary Rath
Business Manager
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301 N 4th St
Bismarck ND 58501-4020
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gary.rath@ndunited.org

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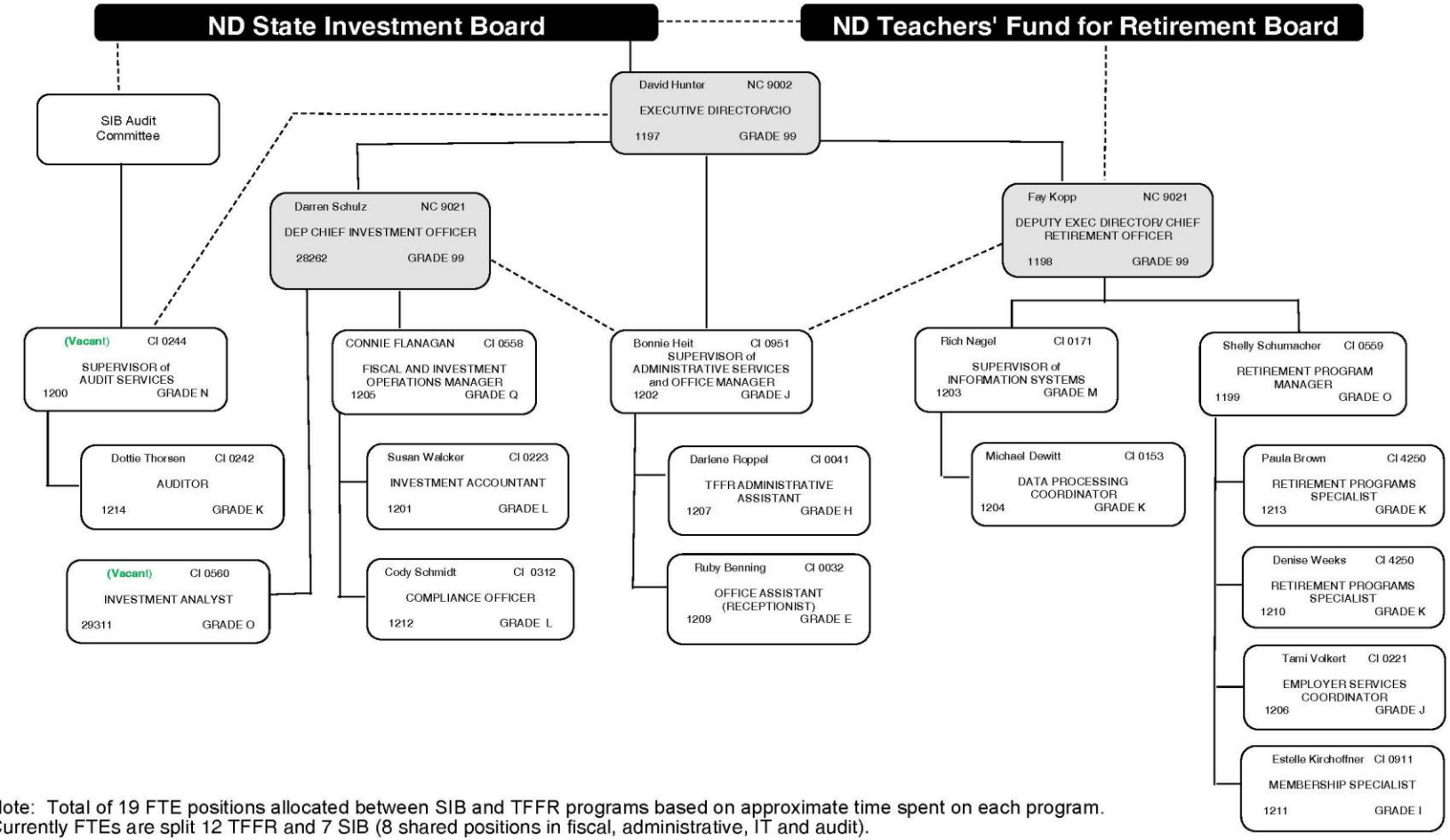
ND Retired Teachers Association
PO Box 447
Bismarck ND 58502-0447
(w) 701-221-7766 (f) 701-224-9824
Erica@aptnd.com

Gloria Lokken
ND United-Retired
1010 65th St NW
Minot ND 58703-8878
(h) 701-838-7913 (c) 701-340-3700
gloria.lokken@ndunited.org

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



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

TFFR Board Calendar and Education Plan 2014-15

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ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

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

2014-15 Board Meetings for the State Investment Board & Teachers Fund for Retirement

July - 2014
24th Teachers' Fund for Retirement, Peace Garden Room, 1:00 p.m.
25th State Investment Board, State Capitol, Peace Garden Room, 8:30 a.m.

August - 2014
22nd State Investment Board, State Capitol, Peace Garden Room, 8:30 a.m.

September - 2014
25th Teachers' Fund for Retirement, Peace Garden Room, 1:00 p.m.
26th State Investment Board, State Capitol, Peace Garden Room, 8:30 a.m.
26th State Investment Board Audit Committee, State Capitol, Peace Garden Room, 1:00 p.m.

October - 2014
23rd Teachers' Fund for Retirement, Peace Garden Room, 1:00 p.m.
24th State Investment Board, State Capitol, Peace Garden Room, 8:30 a.m.

November - 2014
21st State Investment Board, State Capitol, Peace Garden Room, 8:30 a.m.
21st State Investment Board Audit Committee, State Capitol, Peace Garden Room, 1:00 p.m.

January - 2015
22nd Teachers' Fund for Retirement, Workforce Safety & Insurance, 1:00 p.m.
23rd State Investment Board, Workforce Safety & Insurance, 8:30 a.m.

February - 2015
26th Teachers' Fund for Retirement, Workforce Safety & Insurance, 1:00 p.m.
27th State Investment Board, Workforce Safety & Insurance, 8:30 a.m.
27th State Investment Board Audit Committee, Workforce Safety & Insurance, 1:00 p.m.

March - 2015
26th Teachers' Fund for Retirement, Workforce Safety & Insurance, 1:00 p.m.
27th State Investment Board, Workforce Safety & Insurance, 8:30 a.m.

April - 2015
23rd Teachers' Fund for Retirement, Workforce Safety & Insurance, 1:00 p.m.
24th State Investment Board, Workforce Safety & Insurance, 8:30 a.m.

May - 2015
22nd State Investment Board, State Capitol, Peace Garden Room, 8:30 a.m.
22nd State Investment Board Audit Committee, State Capitol, Peace Garden Room, 1:00 p.m.

June - 2015
26th State Investment Board, State Capitol, Peace Garden Room, 8:30 a.m.

Fiduciary Standards

for Pension Plan Trustees

1. Trustees must perform in the interest of plan participants and beneficiaries.
2. Trustees must provide benefits to plan participants and beneficiaries and maintain reasonable administrative expenses.
3. Trustees must act in a prudent manner.
4. Trustees must diversify investments to minimize risk.

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

B. Program Ends

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Policy Type: TFFR Ends

Policy Title: Mission

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

TFFR Board Adopted: May 25, 1995.

Policy Type: TFFR Ends

Policy Title: Goals

Investment and Funding Goals:

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

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

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

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

Service Goals:

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

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

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

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

Policy Type: TFFR Ends

Policy Title: Plan Beneficiaries

TFFR beneficiaries are:

1. **Plan Members:**

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

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

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

      - Retirees
      - Disabilitants
      - Survivors/Beneficiaries

   c. Inactive members:

      - Vested
      - Nonvested

2. **Employers:**

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

   b. State institutions and agencies defined in state statutes

   c. Other TFFR participating employers

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

Policy Type: TFFR Ends

Policy Title: Actuarial Funding Policy Statement

Introduction

The purpose of this Actuarial Funding Policy is to record the funding objectives and policy set by the Board of Trustees (Board) for the North Dakota Teachers' Fund for Retirement (TFFR). Effective with the July 1, 2013 actuarial valuation, the Board establishes this Actuarial Funding Policy to help ensure the systematic funding of future benefit payments for members of TFFR. The contributions made to TFFR are set by statute. These statutory contributions will be compared to the contributions determined under the funding policy in order to assess the appropriateness of the statutory contributions. Based upon this comparison, the Board will decide what action to take, if any. The employer contribution determined under the funding policy is called the actuarially determined employer contribution (ADEC). In addition, this document records certain guidelines established by the Board to assist in administering TFFR in a consistent and efficient manner.

This Actuarial Funding Policy supersedes any previous Actuarial Funding Policies and may be modified as the Board deems necessary.

Goals of Actuarial Funding Policy

1. To achieve long-term full funding of the cost of benefits provided by TFFR;
2. To seek reasonable and equitable allocation of the cost of benefits over time;
3. To maintain a policy that is both transparent and accountable to the stakeholders of TFFR, including plan participants, employers, and residents of the State of North Dakota.

Actuarially Determined Employer Contribution and Funding Policy Components

TFFR's actuarially determined employer contribution is comprised of the Normal Cost and an amortization of the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amortization of the UAAL are determined by the following three components of this funding policy:

I. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement benefits to a given period;

II. Asset Smoothing Method: the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and

III. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets in a systematic manner.

Policy Type: Policy Ends

Policy Title: Actuarial Funding Policy Statement

I. Actuarial Cost Method:

The Entry Age Normal method shall be applied to the projected benefits in determining the Normal Cost and the Actuarial Accrued Liability. The Normal Cost shall be determined as a level percentage of pay on an individual basis for each active member.

II. Asset Smoothing Method:

The investment gains or losses of each valuation period, as a result of comparing the actual market return to the expected market return, shall be recognized in level amounts over 5 years in calculating the Actuarial Value of Assets. Deferred investment gains or losses cannot exceed 20% of the Market Value of Assets (i.e., the Actuarial Value of Assets cannot be more than 120%, nor less than 80%, of the Market Value of Assets as of any valuation date).

III. Amortization Policy:

- The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets), as of July 1, 2013, shall be amortized over a “closed” 30-year period. In other words, the UAAL as of July 1, 2014 shall be amortized over 29 years, the UAAL as of July 1, 2015 shall be amortized over 28 years, etc.

- Beginning with the July 1, 2024 valuation, the Board shall have the discretion to continue the “closed” amortization period, or instead to amortize the UAAL over another period, not to exceed 20 years.

- Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period equal to the amortization period of the UAAL. The Board shall have the discretion to amortize the new UAAL as a result of change in actuarial assumptions or methods over a period of 20 years.

- Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis, the increase in UAAL as a result of any plan amendments will be amortized over a period not to exceed 20 years.
- In a situation where the amortization of the UAAL has more than one component, a single equivalent amortization period will be determined by the Actuary.
- UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase.

- If an overfunding exists (i.e., the UAAL becomes negative so that there is a surplus), such surplus and any subsequent surpluses will be amortized over an “open” amortization period of 30 years. Any subsequent UAAL will be amortized over 20 years as the first of a new series of closed period UAAL amortization.

Actuarial Assumptions Guidelines

The actuarial assumptions directly affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expenses actually paid offset by actual investment returns. To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) the future contribution requirements.

Actuarial assumptions are generally grouped into two major categories:

- Demographic assumptions – including rates of termination, retirement, disability, mortality, etc.
- Economic assumptions – including investment return, salary increase, payroll growth, inflation, etc.

The actuarial assumptions are described in detail in the actuarial valuation report. They represent the Board's best estimate of anticipated experience under TFFR and are intended to be long term in nature. Therefore, in developing the actuarial assumptions, the Board considers not only past experience but also trends, external forces and future expectations.

Actuarial experience studies are completed every five years or at the Board's direction.

Glossary of Funding Policy Terms

- **Present Value of Benefits (PVB) or total cost**: the "value" at a particular point in time of all projected future benefit payments for current plan members. The "future benefit payments" and the "value" of those payments are determined using actuarial assumptions as to future events. Examples of these assumptions are estimates of retirement patterns, salary increases, investment returns, etc. Another way to think of the PVB is that if the plan has assets equal to the PVB and all actuarial assumptions are met, then no future contributions would be needed to provide all future service benefits for all current members, including future service and salary increases for current active members.

- **Actuarial Cost Method:** allocates a portion of the total cost (PVB) to each year of service, both past service and future service.

- **Normal Cost:** the cost allocated under the Actuarial Cost Method to each year of active member service.

- **Entry Age Normal Actuarial Cost Method:** A funding method that calculates the Normal Cost as a level percentage of pay or level dollar amount over the working lifetime of the plan's members.

- **Actuarial Accrued Liability (AAL)**: the value at a particular point in time of all past Normal Costs. This is the amount of assets the plan would have today if the current plan provisions, actuarial assumptions and participant data had always been in effect, contributions equal to the Normal Cost had been made and all actuarial assumptions came true.

- **Market Value of Assets (MVA):** the fair value of assets of the plan as reported in the plan's audited financial statements.

- **Actuarial Value of Assets (AVA):** the market value of assets less the deferred investment gains or losses not yet recognized by the asset smoothing method.

- **Unfunded Actuarial Accrued Liability (UAAL):** the portion of the AAL that is not currently covered by the AVA. It is the positive difference between the AAL and the AVA.

- **Surplus:** the positive difference, if any, between the AVA and the AAL.

- **Actuarial Value Funded Ratio:** the ratio of the AVA to the AAL.

- **Market Value Funded Ratio:** the ratio of the MVA to the AAL.

- **Actuarial Gains and Losses:** changes in UAAL or surplus due to actual experience different from what is assumed in the actuarial valuation. For example, if during a given year the assets earn more than the investment return assumption, the amount of earnings above the assumption will cause an unexpected reduction in UAAL, or "actuarial gain" as of the next valuation. These include contribution gains and losses that result from actual contributions made being greater or less than the level determined under the policy.

- **Valuation Date:** July 1 of every year.

TFFR Board Adopted: March 21, 2013

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.

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

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

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

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

Employee and employer contributions will be reduced to 7.75% each when TFFR reaches 100% funded level on an actuarial value basis.

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

2. FUND GOALS

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

As a result, the Fund goals are to:

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

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

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

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

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

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

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

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

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

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

4. RISK TOLERANCE

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

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

5. INVESTMENT OBJECTIVES

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

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

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

6. POLICY ASSET MIX

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

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

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

7. RESTRICTIONS

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

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

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

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

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

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

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

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

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

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

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

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

8. INTERNAL CONTROLS

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

9. EVALUATION AND REVIEW

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

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

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

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

TFFR Board Adopted: May 25, 1995.
Amended: November 30, 1995; August 21, 1997; July 15, 1999; July 27, 2000; September 18, 2003; July 14, 2005; September 21, 2006; September 20, 2007; October 27, 2011, September 26, 2013.

Approved by SIB: November 18, 2011

Policy Type: TFFR Ends

Policy Title: Membership Data and Contributions

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

Accordingly, the administrative means will be to:

1. Retain member documents applicable to the retirement program.

2. Safeguard TFFR database files.

3. Protect the confidential information contained in member files.

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

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

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

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

8. Mail annual statements to every member.

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

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

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

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

Policy Type: TFFR Ends

Policy Title: Membership Data and Contributions

Monitoring (Method, Responsibility, Frequency)

1. Internal Report

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

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

2. External Report

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

   b. Disclosure of compliance to members through annual statements.

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

Policy Type: TFFR Ends

Policy Title: Member Services

Provide direct services and public information to members of TFFR.

Accordingly, the administrative means will be to:

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

2. Respond to member inquiries on the retirement program.

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

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

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

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

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

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

9. Close retirement accounts of deceased teachers.

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

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

Policy Type: TFFR Ends

Policy Title: Member Services

Monitoring (Method, Responsibility, Frequency)

1. Internal Report

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

   b. Periodic presentations by staff at board meetings.

2. External Report

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

   b. RIO's annual audit by independent auditor.

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

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

Policy Type: TFFR Ends

Policy Title: Account Claims

Ensure the payment of claims to members of TFFR.

Accordingly, the administrative means will be to:

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

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

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

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

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

Monitoring (Method, Responsibility, Frequency)

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

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

Policy Type: TFFR Ends

Policy Title: Trust Fund Evaluation/Monitoring

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

Accordingly, the administrative means will be to:

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

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

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

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

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

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

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

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

Monitoring (Method, Responsibility, Frequency)

1. Internal Report

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

2. External Report

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

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

Exhibit B-I

Plan Characteristics

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

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

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

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

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

Exhibit B-II

Teachers' Fund for Retirement Responsibilities

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

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

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

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

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

6. Communicate and monitor program expectations with the SIB.

TFFR Board Adopted: May 25, 1995.

Exhibit B-III

SIB Responsibilities

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

TFFR Board Adopted: May 25, 1995.

Exhibit B-IV

Asset Allocation Definitions

<u>Global Equity</u>

Definition

Investment represents an ownership claim on the residual assets of a company after the discharge of all senior claims such as secured and unsecured debt.

Public Equity

Public equity is traded on a national exchange. Includes common stock, preferred stock, convertible to stock, options, warrants, futures and other derivatives on equities or composites of equities, exchange-traded funds and equity-linked notes, units and partnership shares representing ownership interests in an underlying equity investment.

Private Equity

Private equity represents equity or equity linked securities in operating companies that are not publicly traded on a stock exchange.

Types of investment strategies:

- *Leveraged buyout (LBO*) – Acquisition of a company with the use of financial leverage
- *Growth capital* – Investment in mature companies looking for capital to expand, restructure, enter new markets
- *Venture capital* – Investment in typically less mature companies, for launch, early development, or expansion
- *Mezzanine* – Subordinated debt/preferred equity used to reduce amount of equity capital required to finance LBOs
- *Distressed* – Equity securities of financially stressed companies
- *Secondaries* – Investment in existing private equity assets

Types of structures:

- *Direct investment* – Direct purchase of equity securities of a private company
- *Co-investments* – Investments in equity securities of a private company alongside the manager of a direct fund
- *Direct fund* – Pool of capital formed to make direct investments
- *Fund-of-funds* – Pool of capital formed to make investments in direct funds

Strategic Role

- High long-term real returns
- Hedge against active (pre-retirement) liabilities
- Private equity enhances total portfolio return as a tradeoff for illiquidity

Characteristics

Public Developed Markets

- Relatively high returns (long-term)
- Relatively high volatility (standard deviation of returns)
- Relatively high liquidity
- Diversification
- Currency adds to volatility but can be hedged, which mutes the diversification benefits

Public Emerging Markets

- Higher expected returns due to economic growth potential
- Liquidity risk is significant
- High volatility
- FX markets not sufficiently developed to hedge currency risk
- Limited access to markets
- Market information less abundant than for developed markets

Private Equity

- Illiquid, long-term time horizon (7-12 year closed-end partnerships)
- Quality of the managers selected is the key determinant of success
- High volatility of returns compensated by higher expected returns
- Encompasses three stages: fundraising, portfolio construction and investment, exit and return realization

Risks

Public Equity

- *Absolute risk* – Possible magnitude of price decline
- *Liability hedging risk* – Risk that assets will not increase when liabilities increase
- *Regulatory risk* – Changes may adversely affect markets
- *Tax risk* – Changes may adversely affect markets
- *Liquidity risk* – Difficulty trading securities under adverse market conditions
- *Firm specific risk* – Unique risks associated with a specific firm
- *Tracking risk* – Magnitude of performance deterioration from a benchmark
- *Time horizon* – Horizon too short to weather cycles
- *Benchmark risk* – Benchmark not appropriate proxy
- *Market risks* – Price decline

Exhibit B-IV.1

- *Currency risk* – Unanticipated changes in exchange rate between two currencies

Private Equity

- *Liquidity risk* – Absence of liquidity and appropriate exits could significantly increase time horizon
- *Firm specific risk* – Unique risks associated with a specific firm
- *Leverage risk* – Historical excess use of leverage and current inability to secure financing may adversely affect LBOs
- *Manager selection risk* – Selecting managers that fail to deliver top performance results
- *Diversification risk* – Inability to properly diversify the portfolio by vintage year, industry groups, geography
- *Tax risk* – Changes may adversely affect markets
- *Regulatory risk* – Changes may adversely affect markets
- *Strategy risk* – Continuing applicability of investment strategy in context of capital flows
- *Market risks* – Price decline

Global Fixed Income

Definition

Investment represents a legal obligation between a borrower and the lender with a maturity in excess of one year. Evidence of indebtedness and securities that evidence an ownership interest in debt obligations that are issued, insured, guaranteed by, or based on the credit of the following: companies, governmental entities or agencies, banks and insurance companies. Includes agency and non-agency mortgage-backed securities, collateralized mortgage obligations, commercial mortgage-backed securities, asset-backed securities, private placements, and options, futures or other derivatives on fixed income securities or components of fixed income.

Strategic Role

- Diversification within a multi-asset class, total return portfolio
- Hedge against a long duration accrued liability
- Current income
- Non-U.S. provides hedge against unanticipated domestic inflation and diversification to U.S. assets

Characteristics

- Medium volatility asset class
- Relatively high liquidity
- Broadly diversified by market sector, quality, and maturity
- A large currency component exists within international fixed income returns
- Developed markets are extremely liquid. Many issues of less developed markets are also relatively liquid.

Risks

- *Duration risk* – Price volatility from a change in overall interest rates
- *Convexity risk* –Negative convexity is the risk of price declines being greater than the price increase due to interest rates moving equally up versus down
- *Default or credit risk* – The uncertainty surrounding the borrower's ability to repay its obligations
- *Structure risk* – Risk that arises from the options implicit in bonds (like call ability and sinking funds) or the rules that govern cash flow differ from expectations
- *Sector risk* – Risk of holding sectors that are in different proportions than the benchmark
- *Liquidity risk* – Cost of trading in a security which is reflected in the bid-ask spread or the cost of selling due to cash flow needs
- *Reinvestment risk* – The uncertainty surrounding future yield opportunities to invest funds which come available due to call, maturities, or coupon payments
- *Benchmark risk* – Risk of the benchmark being inappropriate
- *Yield curve risk* – Price changes induced by changes in the slope of the yield curve
- *Currency risk* – The risk of currency movements vs. the dollar for each market. Currency may contribute greatly to return and lower correlation.

<u>Global Real Assets</u>

Definition

Investment represents an ownership interest in real return assets that provide inflation hedging characteristics in periods of unanticipated inflation. Includes inflation-linked securities, private or public real estate equity or equity-linked investments, private or public real estate debt, infrastructure, timber, real asset mezzanine debt or equity, non-fixed assets and other opportunistic investments in real assets.

Strategic Role

- Reduces risk of composite multi-asset portfolios through diversification
- Relatively low correlations to traditional asset classes
- Can serve as a possible inflation hedge during periods of high inflation
- Provides an attractive return relative to fixed income asset class in periods of low to moderate inflation
- Infrastructure provides inflation protection as he revenues of the underlying assets are typically linked to CPI
- Potential for high returns in niche opportunities

Characteristics

Real Estate

- *Risk* – Volatility of private real estate falls between publicly-traded debt and publicly-traded equities
- *Returns* – Nominal returns are expected to fall between equities and fixed income
- *Illiquidity* – Transactions require a significantly longer period to execute than other asset classes
- *Inefficient Market* – Information affecting real estate asset valuation and market trading is not rapidly, accurately, or efficiently reflected or interpreted in its pricing

Infrastructure

- *Long life assets* – Capital intensive assets with 25 to 99 year concessions, match for liability duration
- *Inflation protection* – Revenues typically linked to CPI
- *Monopoly or quasi monopoly* – High barriers to entry due to scale and capital cost
- *Steady and predictable cash flow* – Produce strong and Predictable yields
- *Low correlation* – Provides portfolio diversification, low beta
- *Inelastic demand* – Predictable demand with little volatility, less susceptibility to economic downturns
- *Limited commodity risk* – Not subject to commodity pricing
- *Insensitive to changes in technology* – Low risk of redundancy or technology obsolescence
- Investments are usually illiquid and involve a long (10 to 20 year) holding period

Timberland

- *Return* – Low correlation with other asset classes, returns stem from four distinct sources: biological growth, timber prices, land values and management strategy
- *Income* – Driven almost entirely by the sale of harvested mature trees

- *Appreciation* – Driven by increased volume and value on timber and appreciation of underlying land
- Categorized by type of land (e.g. plantation, natural forest), type of tree (e.g., hardwood, softwood), country and region

Risks

Real Estate

- *Property type risks* – Negative changes in demand/supply conditions by property type (e.g., office, industrial, retail, lodging, mixed-use, multi-family)
- *Location risks* – Local market condition relative to the adverse changes surrounding a property, or in discovery of hazardous underlying conditions, such as toxic waste
- *Tenant credit risks* – Failure by a tenant to pay what is contractually owed
- *Physical/functional obsolescence* – Negative influences on buildings due to technological changes, outdated layout and design features, and physical depreciation
- *Interest rate risk* – Higher rates can negatively impact both sales strategies and leveraged properties at refinancing
- *Reinvestment risk* – In a declining rental rate market, cash flow received may not be reinvested at the same level
- *Business cycle risk* – As economies slow down, there may be less demand for space
- *Inflationary risk* – Rent levels may not always keep up with rising operating expense levels
- *Illiquidity* – Inability to effectively liquidate a property into cash
- *Natural disaster risk* – Weather, floods, earthquake
- Regulatory concerns are critical, especially in emerging markets
- Capital and managerial intensive

Infrastructure

- *Leverage* – Deals with leverage between 40% and 80% can transform low risk assets into risky investments. Changes in the credit environment alter refinancing risk.
- *Market inefficiencies* – Competitive auctions lead to overpaying. There is a limited history and track record in the U.S. infrastructure space.
- *Political and headline risk* – Public acceptance and understanding of infrastructure needs to expand. In addition, the political landscape in every state and municipality differs.
- *Regulatory risk* – Regulated assets are subject to government changes
- *Construction and development* – Project overruns and delays should be shared with construction partners. Volume/demand risk for new developments can vary.

- *Labor issues* – Greenfield projects could generate new jobs while the privatization of brownfield assets could eliminate skilled labor members
- *Asset control* – Stipulations via concession agreements limit some management control (pricing, growth, decision approvals, etc.). Asset control needs to be appropriately priced.
- *Firm specific risk* – Unique risks are associated with specific firm

Timberland

- *Liquidity risk* – Liquidity is thin, marketplace characterized by few buyers and sellers, transactions are complicated and can take many months to execute
- *Valuation risk* – Annual appraisal process can lead to disparities between carrying value and realized sales prices during downturns
- *Physical risk* – Subject to losses from natural and human-caused events such as fire, insect and vermin infestations, disease, inclement weather, and theft
- *Political and regulatory risk* – Environmental regulations can restrain or prohibit timberland management activities
- *Leverage* – Can amplify volatility and potentially lead to an inability to refinance properties or lead to a distressed sale, requires a minimum level of generated income
- *Location risks* – Real estate dispositions may also be impacted by weakness in local residential real estate markets

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Global Alternatives

Definition

Investment has a distinct return/risk factor profile as compared to other specified broad asset class groupings. Examples: Low market exposure/absolute return strategies such as market neutral, and other niche strategies with low asset class beta such as insurance-linked investments, volatility, intellectual property, healthcare royalty, litigation finance and fine art.

Strategic Role

- More robust diversification achieved through the introduction of non- traditional return drivers/risk factors
- Low or negative correlations to other asset classes
- Return profile less dependent on economic growth and interest rates
- Potential for attractive risk-adjusted returns

Characteristics	• *Returns* – Exhibits lower correlations to broader equity and credit markets in periods of market distress • *Illiquidity* – Transactions may require a longer period to execute than other asset classes • *Inefficient Market* – Information affecting asset valuation and market trading may not be accurately or efficiently reflected or interpreted in its pricing
Risks	• *Market risk* – Cost of carry on being long volatility • *Natural disaster risk* – Weather, floods, earthquake affect natural catastrophe-based insurance-linked products • *Due diligence* – Complicated to evaluate and monitor • *Illiquidity* – Transactions may require a longer period to execute than other asset classes • *Implementation* – Complexity of implementation may be an impediment

TFFR Board Adopted: January 24, 2013

C. Program Policies

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Policy Type: TFFR Program

Policy Title: Board Agenda

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

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

Policy Type: TFFR Program

Policy Title: Board Meetings

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

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

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

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

Policy Type: TFFR Program

Policy Title: Board Members' Code of Conduct

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Policy Type: TFFR Program

Policy Title: Deductions from Annuity Checks

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

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

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

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

Additional deductions may be added upon approval by the board.

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

Policy Type: TFFR Program

Policy Title: Disclosure to Membership

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

- Member Handbooks (Summary Plan Descriptions)

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

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

- Member Statements

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

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

- Annual Financial Report

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

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

Policy Type: TFFR Program

Policy Title: Employer Payment Plan Models

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

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

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

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

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

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

Policy Type: TFFR Program

Policy Title: Employer Reporting Errors

It shall be the policy of the TFFR Board of Trustees that when an unintentional error in the reporting of retirement contributions by a TFFR participating employer is discovered during an employer compliance audit, the following policy shall be in effect:

- The employer will be billed for all material shortages due plus interest or refunded for all material overpayments.
- Materiality limit to be used in determining if a member's account will be adjusted is an aggregate total of $300 in salary per individual member per year.
- The interest charged to the employer shall be the actuarial investment assumption for earnings of the trust.
- The time period shall be from the onset of the error or three years prior to the beginning of the current school year.
- Failure of the employer to pay the required shortages or provide required information will constitute "failure to make required reports and payments" and require application of section 15-39.1-23, NDCC.
- The TFFR board reserves the right to negotiate with a school district in special situations.

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

- The employer must respond in writing to the audit finding(s) and/or recommendation(s) within 30 days of the report.
- NDRIO will conduct a follow-up review of the audit finding(s) and/or recommendation(s) one year following the date of the report or as determined by the Deputy Executive Director/Chief Retirement Officer.

TFFR Board Adopted: February 22, 1996.
Amended: July 16, 1998; January 24, 2002; April 15, 2004; July 14, 2005; September 20, 2007, September 26, 2013.

Policy Type: TFFR Program

Policy Title: Employer Reports

It shall be the policy of the TFFR Board of Trustees to require all participating employers to report the collection and payment of member and employer contributions on a monthly basis to the RIO. Both payment and report must be postmarked or sent via the internet by the 15th day of the month following the end of the reporting period. Employer reports must be in a format approved by the TFFR board. Effective July 1, 2014, reports must be submitted in one of the following formats: 1) paper reports, 2) internet unless approved by the Deputy Executive Director/Chief Retirement Officer.

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

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

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

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

TFFR Board Adopted: August 29, 1996.
Amended: July 16, 1998; November 18, 1999; March 22, 2001; September 20, 2007, September 26, 2013.

Policy Type: TFFR Program

Policy Title: Head Start Program Employees

It shall be the policy of the TFFR Board of Trustees that employees of a Head Start Program who are certified to teach and contracted with a school district or other participating employer, are members of TFFR if the following conditions are met:

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

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

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

TFFR Board Adopted: November 20, 1997.
Amended: September 26, 2013.

Policy Type: TFFR Program

Policy Title: Information Dissemination

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

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

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

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

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

Policy Type: TFFR Program

Policy Title: Level Income Option

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

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

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

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

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

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

Policy Type: TFFR Program

Policy Title: Military Service Credit

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

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

Policy Type: TFFR Program

Policy Title: Outreach Program Facilities

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

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

TFFR Board Adopted: April 22, 1999.

Policy Type: TFFR Program

Policy Title: Payment of Benefits

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

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

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

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

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

Policy Type: TFFR Program

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

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

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

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

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

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

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

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

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

Policy Type: TFFR Program

Policy Title: Retirement Benefit Payments

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

- Estimated salary and service credit information

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

- Finalized salary and service credit information

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

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

TFFR Board Adopted: March 15, 2007

Policy Type: TFFR Program

Policy Title: Travel

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

TFFR Board Adopted: September 27, 2001.

Policy Type: TFFR Program

Policy Title: Voiding Checks

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

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

D. By-Laws

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

Chapter 1 – Authority

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

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

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

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

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

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

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

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

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

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

b. Long-range asset allocation targets.

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

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

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

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

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

    e. Perform other duties assigned by the board.

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

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

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

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

Chapter 1 – Authority (continued)

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

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

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

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

Chapter 2 – Board of Trustees

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

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

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

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

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

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

Chapter 3 – Officers and Duties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chapter 4 – Meetings

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

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

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

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

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

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

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

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

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

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

Chapter 5 – Committees

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

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

Chapter 6 – Rules of Order

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

Chapter 7 – Administrative Office

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

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

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

Chapter 8 – Amendments

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

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **July 17, 2014**

SUBJ: **Annual Customer Satisfaction Reports**

1) To assist the TFFR Board in monitoring how well the TFFR program is serving member and employer needs, each year we survey the interest groups, and collect evaluations from members and employer representatives. Here they are!

   - Responses to the TFFR Customer Satisfaction Surveys from NDRTA, NDSBA, and NDSBMA. We have not yet received responses from ND United and ND CEL.

   - Evaluation responses and comments received directly from the members and employers from benefits counseling sessions, preretirement seminars, business manager workshops, and other member and employer communications.

2) The TFFR Board is also asked to complete an evaluation. As in the past, the State Investment Board wants to know from its customers (TFFR, PERS, Workforce Safety & Insurance, etc.) if the SIB (through the RIO staff) is providing quality service. I have enclosed a copy of the SIB Customer Satisfaction Survey which the TFFR Board as a whole will be asked to complete at the July 24 meeting.

Enclosures

TFFR Customer Satisfaction Survey

Is the TFFR Board, through the RIO staff, providing TFFR members and employers with quality service? Please help the TFFR Board measure their performance and identify areas for improvement by completing this annual survey.

Rating factors:	Excellent	Above Average	Average	Poor
Staff courtesy	x			
Responsiveness	x			
Efficiency	x			
Accessibility	x			
Knowledge of TFFR program	x			
Clarity and effectiveness of information	x			
Outreach services				
Member education/presentations	x			
Member benefit counseling sessions				
Member pre-retirement seminars				
Employer education/presentations	x			
Legislative proposals	x			
Legislative presentations/information	x			
Overall quality of service	x			

n/a
n/a

How can the TFFR Board and/or RIO staff improve their service to TFFR members and employers? The changes will prove to be a challenge to figure out for the employers. I have visited with Fay about this and I know there is an intention to provide the training and support needed. I have no doubt this will happen, but certainly it is on the radar of our organization.

Comments _____

Signature _____ Date 7/23/14

Organization NDCEL

THANK YOU for helping us improve service to TFFR members and employers.

ND Retirement and Investment Office, P.O. Box 7100, Bismarck, ND 58507-7100
Phone: 701-328-9885 or 800-952-2970 - FAX: 701-328-9897 - Email: fkopp@nd.gov

RECEIVED
JUL 11 2014
NDRIO

TFFR Customer Satisfaction Survey

Is the TFFR Board, through the RIO staff, providing TFFR members and employers with quality service? Please help the TFFR Board measure their performance and identify areas for improvement by completing this annual survey.

Rating factors:	Excellent	Above Average	Average	Poor
Staff courtesy	x			
Responsiveness	x			
Efficiency	x			
Accessibility	x			
Knowledge of TFFR program	x			
Clarity and effectiveness of information	x			
Outreach services				
Member education/presentations	x			
Member benefit counseling sessions	x			
Member pre-retirement seminars	x			
Employer education/presentations	x			
Legislative proposals	x			
Legislative presentations/information	x			
Overall quality of service	x			

How can the TFFR Board and/or RIO staff improve their service to TFFR members and employers?

Comments: As always, Fay and her staff excel in all areas. They are always accessible, courteous and knowledgeable. Keep up the fantastic job!

Signature Erica Carroll Date 7-11-14

Organization NDRTA

THANK YOU for helping us improve service to TFFR members and employers.

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Phone: 701-328-9885 or 800-952-2970 - FAX: 701-328-9897 - Email: fkopp@nd.gov

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Rating factors:	Excellent	Above Average	Average	Poor
Staff courtesy	X			
Responsiveness	X			
Efficiency	X			
Accessibility	X			
Knowledge of TFFR program	X			
Clarity and effectiveness of information	X			
Outreach services				
Member education/presentations	X			
Member benefit counseling sessions	X			
Member pre-retirement seminars	X			
Employer education/presentations	X			
Legislative proposals	NA			
Legislative presentations/information	NA			
Overall quality of service	XX!!			

How can the TFFR Board and/or RIO staff improve their service to TFFR members and employers?

Comments Fay is wonderful! She is knowledgeable, thoughtful, and willing to speak to our membership anytime. We highly value Fay!

Signature [signature] Date July 11, 2014

Organization ND School Boards Association

THANK YOU for helping us improve service to TFFR members and employers.

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Phone: 701-328-9885 or 800-952-2970 - FAX: 701-328-9897 - Email: fkopp@nd.gov

TFFR Customer Satisfaction Survey

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Rating factors:	Excellent	Above Average	Average	Poor
Staff courtesy	X			
Responsiveness	X			
Efficiency	X			
Accessibility	X			
Knowledge of TFFR program	X			
Clarity and effectiveness of information	X			
Outreach services				
Member education/presentations				
Member benefit counseling sessions				
Member pre-retirement seminars				
Employer education/presentations	X			
Legislative proposals				
Legislative presentations/information				
Overall quality of service	X			

How can the TFFR Board and/or RIO staff improve their service to TFFR members and employers?

Comments Do not know about member service, but if anything like employer service it must be great. TFFR is excellent to work with.

Signature Maria M Dunlap Date 7-1-14

Organization Leeds Public School
ND School Business Managers Assn.

THANK YOU for helping us improve service to TFFR members and employers.

ND Retirement and Investment Office, P.O. Box 7100, Bismarck, ND 58507-7100
Phone: 701-328-9885 or 800-952-2970 - FAX: 701-328-9897 - Email: fkopp@nd.gov

Annual Tabulation 2013-14
Comment Cards 181

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
COMMENT CARD

Are we providing you with quality service and information on your TFFR benefits?

	Excellent	Above Average	Average	Poor
Staff Courtesy	172	9		
Promptness	165	12	3	1
Content/Information	163	15	2	

- Keep up the good work.
- You did a great job helping me get all my paperwork in and done correctly. I appreciated your assistance and willingness to guide me through the process. Thanks!
- Everyone was very knowledgeable and professional!
- Counselor: I hope you always stay with TFFR. Working with you made my transition so much easier. You are a "gem" and so knowledgeable.
- Everyone was extremely helpful. It seems as if everything is in place & ready to go. Thanks for great service & help. I really appreciate it!
- Counselor did an exceptional job helping me through this process.
- I was so very thankful for counselor's help. My husband & I met with her once, & I've called her numerous times. She was always pleasant, helpful, & knowledgeable. Thank you!
- Process was very good.
- No concerns at all at this time.
- Thank you for your help. Everyone has always been very pleasant & helpful.
- Counselor provided all necessary paperwork in a timely manner. My first retirement check arrived on time! Thank you!
- Thank you for all your help. Counselor has been so helpful.
- All the staff at TFFR handled my retirement application promptly & efficiently! Thank you!
- You are doing a good job - Thanks!
- Thank you for everything you helped me with!
- Thank you for all of your assistance.
- Thanks for everything. Keep up the good work.
- Very helpful! Very efficient! I found the process to be easy to follow & understand. Thank you!
- Counselor was so patient, helpful in guiding me thru this scary process. She's great.
- In the process of retiring, my wife and I decided to move to Georgia to be closer to our kids. Thank you for making everything so much easier.
- Excellent help! Thank you so much-you really made it easy. You answered all my questions quickly and every person I talked to was very kind. Thanks!
- Thanks for excellent service! ☺
- Counselor was very helpful! She answered all my questions. Thanks!
- I was always able to talk with people immediately when I called--my questions were answered promptly & they were informative.
- Thank you!
- Thanks!! ☺
- Counselor was really really helpful-answered many questions and got right back always. The whole office was very very friendly!
- Excellent - everyone was very courteous & helpful. Thanks counselor for all you did!

- Thanks!
- Everyone that I spoke to was helpful & courteous - very thankful.
- Counselors went out of their way to help me. Outstanding service. Thanks for all you do.
- The process went smoothly. Thanks for your help.
- NDRIO did a great job in answering questions and helping guide me in my retirement. Thanks so much.
- I have appreciated the excellent service counselor provides. All questions were answered - a good experience. Thank you!
- I called counselor to ask about my TFFR benefits. She answered my questions & sent the documents within a week. Thanks for the prompt and courteous service.
- Thanks for everything & your patience.
- Excellent, friendly service.
- Very helpful and knowledgeable.
- Counselor was very helpful and answered all my questions.
- Thanks a bunch Pcounselor. Excellent service and very knowledgeable.
- Cunselor was so patient, informative and kind. Appreciate all your hard efforts.
- Really appreciated the life planning information!
- Counselor is very helpful and prompt.
- Counselor has been very helpful and she is very knowledgeable. She helped us a lot!
- I had the opportunity to visit with both counselors. They were both respectful, efficient, patient and delightful! Thank you.
- ABSOLUTELY AWESOME! THANKS A MILLION!
- Efficient, knowledgeable and very sociable - just like North Dakota!
- Wonderful! All of my questions were clearly answered.
- I was very pleased with the service received from your office - prompt and courteous.
- You made this very easy for an out-of-stater who could attend no meetings.
- Appreciated always having the answer to my questions! Thanks!
- Thank you - Everyone was helpful & kind.
- We met with the Bismarck group and she explained things very well and answered our questions. She made it very easy and comfortable.
- Thank you!
- Thank you!
- I worked with my counselor & she was S0000 helpful, patient, competent, kind. Thanks so much!! ☺☺
- Great people! Would have liked more info about health insurance.
- Counselor is a credit to your office. She was well-informed and patient as she shared my TFFR benefits estimates with me.
- Very friendly, patient, kind! You are providing us with quality service.
- Counselor was well organized and explained things well. Thanks!
- Very efficient and quality time was given to me! Thank you.
- Everything went smoothly.
- She called me! Wow - I was impressed with the willingness to help me get all the paperwork completed. She explained benefits very well and was that kind voice at the end of the phone.
- Counselor has been amazing! Always pleasant and very helpful! Thank you!
- Counselor did an excellent job of informing me of my options and being prompt. It was a pleasure and especially when I live out of state!
- Counselor has been an immense help to me. Great explanation of process for retirement benefits and has projected various scenarios for me per my request!
- Counselor was great help!
- I was very satisfied with the services.
- I met with counselor and visited with counselor on the telephone. I found them to be very informative & helpful. They made retiring much easier.
- My questions were answered quickly.
- Cannot speak to promptness about processes of application completion.
- I wish I could find an email address on web page or on official papers. (Counselor was excellent to

work with!)

- Fantastic customer service. Thank you!
- Counselor was very helpful - so quick to get back to me with questions I had emailed to her.
- Thank you so much!
- Counselor was friendly and did a great job!
- Counselor was very helpful in the entire process.
- Counselor has been very helpful.
- Thank you!
- Very good!!
- Thanks for all your help!
- Your department was fabulous to work with. You were always very friendly and answered all my questions in a timely manner!!! Thanks!
- Counselor was excellent!! Thank you!
- Thanks for everything. You made the retirement process EASY (maybe too easy)! ☺
- Thank you for all your help.
- The staff were very helpful. Thank you so much.
- Returned every call promptly. So easy to work with and polite.
- My experience thus far has been very helpful. All questions have been answered promptly.
- Thank you for all of your support and prompt responses to my questions! Counselor was awesome to work with!! ☺☺
- Counselor was excellent to work with -- process of retirement went smoothly!
- Wonderful staff-answered my questions very well, easily understood. Great experience with them.
- Very helpful personnel - services very timely. Thank you!
- The staff at ND Retirement & Investment were so courteous and easy to work with - even the simplest questions were answered with respect!
- Counselor did a great job!
- Well satisfied!
- Counselor did a wonderful job for me.
- Counselor was awesome!
- I appreciated the help and promptness that my application was handled.
- Thank you for answering all my questions in a timely manner.
- Awesome people at the NDRIO!
- You have made this process very easy and efficient. Thank you!
- Thank you for all your info & help.
- Very helpful! Thank you Counselor!
- Keep up the good work! ☺
- Very good service and support. I'm hoping this last year's actual salary vs. my contract will be evaluated in case it affects my monthly pension, even if only by a few dollars.
- Thank you for all the help.
- Counselor is a wonderful asset to your company - she's knowledgeable & has excellent communication skills!
- It was so much easier than I thought it would be. Thank you!
- Thank you for the excellent, thorough help you gave during this process. I really appreciated the promptness and "friendly" atmosphere of your office. Thank you!
- Thanks!
- Counselor was very helpful throughout my retirement process. She helped me.
- Thank you for your services.
- Counselor - God Bless YOU for all you have done and do for others. You truly have been a God send!! ☺ Thank you!
- Counselor did an excellent job of explaining the steps to retirement. Thanks for your help!
- Great flow chart w/necessary documents and timeline. My district requested Notice of Termination form w/Salary Verification. You made the process easy.
- Excellent job. Very helpful.
- Excellent service in processing & paying out. Thank you for your service.
- Counselor was very patient and helpful for me to plan for my retirement. Thank you!

- Summer retirement seminar was also GREAT - very helpful.
- It would be easier to have all forms filled out before your date of retirement.
- You made my retirement fast and easy!
- Thank you!
- Everyone was very friendly & helpful.
- Thank you so very much for all you do for us!

PRE-RETIREMENT SEMINAR FOR TFFR MEMBERS
ANNUAL EVALUATION REPORT
YEAR 2013-2014

Members	Bismarck	47	Grand Forks	28
Spouses - Others		18		12
Evaluation Forms Returned		35		26

1. TFFR PENSION BENEFITS

Excellent	Above Average	Average	Poor	No Answer
34	27			

- Good explanations.
- Well presented.
- The computer should have been working!
- Very good presentation!
- Explained everything thoroughly.
- Excellent-Thanks for all the good information!
- Lots of good explanations.
- Wish we had the technology working to see and follow, but very thorough & easy to follow.
- Knows material.
- Good to know information.

2. SOCIAL SECURITY AND MEDICARE

Excellent	Above Average	Average	Poor	No Answer
27	24	10		

- Great information presented in a humorous format. Enjoyed "Asides"!
- Entertaining and informative.
- Very perky.
- Nice to know dates of applying.
- Good information.
- Peppy, but way too fast at times.
- Medicare seemed confusing. Need more info.
- Didn't talk about the website & how to access this as she stated she would.
- It would have been helpful to have you go to the website and walk through the different areas.

3. FINANCIAL PLANNING

Excellent	Above Average	Average	Poor	No Answer
32	19	10		

- Like the information and the humor.
- Interesting.
- Great info!
- Great review.
- 2nd time I've heard him. Learn more each time.

4. INSURANCES

Excellent	Above Average	Average	Poor	No Answer
10	10	39	1	1

- Did not apply but good info.
- 25 "OK's" in 10 minutes ☺
- Too fast - Power Point not in handouts.
- Could have had more examples and explanations.

- Used a lot of unfamiliar "letter" titles, seemed disorganized, power point did not line up with handouts.
- Microphone problems.
- Hard to hear.
- Very hard to hear.
- Couldn't hear well.
- Couldn't hear her. (3)
- Very hard to hear - after many reminders to hold mic closer to mouth.
- Poor use of the mic. Hard to hear!
- Need to be louder. Hard to hear as she moved. Couldn't hear questions & she needed to repeat them. When she spoke to one person, she got so quiet we could not hear!
- Could not hear her voice -- lost a lot of information.
- Could not hear most of the presentation.
- Good info, but need more.
- Good information - difficult to hear.
- Mic was not ideal so speaker's voice was not loud enough.
- Needed to use microphone!
- Volume was an issue. The mic wasn't always up to her lips so it was really important to concentrate to hear & that's unfortunate. Couldn't always hear her responses to questions & I sat up front.

5. ESTATE PLANNING

Excellent	Above Average	Average	Poor	No Answer
41	13	5		2

- What a mind opener - really enjoyed her!
- WOW - Thanks for this piece! It was shocking!
- Fabulous information.
- Very, very good!
- Awesome!
- Good information.
- Gave good recommendations.
- Presenter is very entertaining ☺
- Great!
- Lot of good terms.
- I learned more about planning & hope it pushes me to complete it.

6. PLEASE RATE THE OVERALL SEMINAR

Excellent	Above Average	Average	Poor	No Answer
34	22	3	1	1

- Should have used the hand held mic.
- Focused on issues we're wondering about.
- Thank you counselor! You are the thread that weaves it all together.
- Very good presentation!

7. DO YOU FEEL THAT ATTENDANCE AT THIS SEMINAR WAS TIME WELL SPENT?

Yes	No	No answer
60		1

- Mostly

8. WOULD YOU RECOMMEND THIS SEMINAR TO OTHERS?

Yes	No	No answer
61		

9. WILL ATTENDANCE TODAY MOTIVATE YOU TO TAKE ACTION RELATIVE TO YOUR RETIREMENT PLANNING?

Yes	No	No answer
59	1	1

If yes, what action will you take?

- Getting a contingent beneficiary.
- Write will, increase savings/investments now.
- Make a plan.
- Schedule an individual session.
- Plan retirement for next year or year following.
- Long term care.
- We are in the process of setting up a trust and purchasing long term care insurance.
- More planning, less hoping.
- Financial planning.
- Look closely at my goals for retirement. Make some changes in investments to plan ahead for insurance expenses.
- I made an on-going list of "to do's" - add contingent beneficiaries, look into long term care, re-look at finances, apply for Medicare, etc.
- Financial POA, health care directive and will, will get done ASAP!
- Using forms and tools given at seminar to figure $$, needs, time frames, and begin process of paperwork.
- Nothing that I'm not already doing.
- Meet with a financial planner.
- Examine our 401B plans and IRA's.
- Review my will and check out the SSA website.
- Set up beneficiaries, begin a long term care plan, follow the checklists - make a will.
- Make an official will. Go to online sites - get estimates.
- Monitor & prep for final years. Insurance options/investment options/monthly payouts.
- Start out with getting will. Then go to SSA website & play around with when best early retirement time for me will be.
- Talk to an individual person about this to get a better picture.
- Adjust beneficiaries, look for alternative investment strategies.
- Need to do more planning.
- Pre-plan many details.
- Review my life insurance and assets.
- Beneficiaries
- Check on life insurance.
- Start process.
- Look further into insurances, better plan for a will, consider a 9 month pay schedule for last year as opposed to a 12 month.
- Check into health insurance options, go online to view SSA statements.
- Add contingent beneficiary -- make a time-line plan.
- Check into social security on line, check on medicare, update will, check on beneficiaries on all documents.
- Adjust beneficiaries. Make a will.
- More prep for future decisions.
- Putting together my papers & getting a healthcare directive.
- Review will.
- Look into more investments.

10. WAS THE LENGTH OF THE PROGRAM APPROPRIATE? (one day)

Yes	No	No answer
60		1

If not, how long should the program be?

- 1/2 day
- Better to have 1 hr for lunch and finish by 3:00 since I have a 2 1/2 hr drive one way.

11. WAS THE TIME OF THE PROGRAM CONVENIENT (FULL DAY - SUMMER)?

Yes	No	No answer
60		1

If not, what would be a better time?

- 9:30

12. DO YOU HAVE ANY SUGGESTIONS FOR FUTURE PROGRAMS?

- Thank you so much! This was a great way to gather information.
- More exact figures for insurance costs if available - (Cobra, etc).
- This was excellent. Thank you! Appreciated binder with slides.
- Please match info in book handout with power point info a little closer. The insurance presentation was somewhat confusing because of this.
- Thanx
- Thanks so much! I'm shocked that more teachers don't take advantage of this so important material.
- All presenters did a great job - very informative.
- Call this financial planning for success to get younger teachers serious about financial planning.
- Do you have a program planned in Dickinson?
- Turn down air -- too cool.
- Valuable information.
- Thank you for offering such an informative seminar. I have work to do.
- No, great healthy snacks during breaks. Thanks, I learned a lot.
- Better mic system.

Retirement 101
Evaluation
Bismarck
December 10, 12-13, 2013

Members Present 152
Evaluations Returned 72

Please rate the overall program.

Excellent	Above Average	Average	Poor	No Answer
56	15	1		

- Yes!! I learned a lot.
- Very informative.
- Great information.
- Presenter was great! It is obvious that she knows her "stuff"!
- Very helpful!
- Thanks!
- Very informative - thank you!
- Thanks, great info!
- Appreciate including the mentors in this discussion. Just don't take the time to do this.
- I now understand the options available. Thank you!
- Great information!
- Great information - I like the printouts of my benefits. A lot of questions answered. I now know a lot more about my retirement.
- I learned so much I did not know!
- Excellent information.
- Very informative.
- I remember parts of this program as a new teacher, but after working for a few years now, it applies so much more!
- Very informative and easy to understand.
- Information was presented in a very easy to follow manner. Thank you!
- Thank you, now I am confident in my understanding of TFFR!
- I learned a lot about purchases years and rolling over out-of-state years.
- Good information to have.
- A lot of information. Handouts are very appreciated.
- Good explanations.
- Answered questions patiently & clearly.
- Very informative.
- The TFFR info was excellent.
- Thank you!

What did you like best about the program?

- Information I hadn't heard before - very valuable!
- I appreciate all the info.
- Able to ask questions!
- Thorough overview.
- Explanation of the coding.
- Learning how to buy time.
- Seeing my actual data.

Retirement 101

- Refresher on how it all works.
- Good explanation of the program.
- Takes care of my money, simple and easy to understand.
- Enjoyed step-by-step instructions.
- Easy to follow.
- Lots of great information! I had NO idea!
- Clear and concise info. Easy to understand. Loved the individual printout of our account.
- Knowing about beneficiaries and the amount in my account.
- The handouts for a great resource.
- You answered my question about 401K rollover.
- Very informative. You knew what people wanted to know about.
- The presentation was very helpful. Lots of great information.
- Specific numbers.
- Retirement age-money
- All of it.
- Explanations very clear and well organized.
- Handouts individualized for each participant.
- Having an actual printout of date of retirement and estimated value.
- Very informational.
- My questions were answered.
- It was aimed to younger teachers.
- Informative.
- Knowledge of subject and individual printouts → Very helpful.
- Very informative - would be nice to hear this every so often.
- Very good information that was presented in a way that was easy to understand.
- Very professional & informational about TFFR & answered many questions & left me with food for thought.
- Organized.
- The presentation! Very informational!
- The information was presented in an easy way to understand.
- Seeing my current information.
- Explaining everything in detail. Having her there to ask questions.
- Personalized folder with our information.
- Very well laid out and explanations.
- Excellent.
- Helped with long term goals.
- Very informative. Options/explanation-well presented.
- Being told important information I wasn't aware of.
- I appreciate the information and the personalized folder.
- Information on vesting.
- Very informative. I learned a lot of new information.
- My personal info along with the PowerPoint. Lots of info but extremely helpful.
- The visuals & the presenter (great explanation).
- Information was tailored to information I needed.
- Lifetime benefit.
- Wow, informative but **very** understandable and delivered well.
- Explanations.
- Information pertained to "me" now.
- Very educational - appreciate list of terms.
- The printout of my account.
- The updated amounts and the choices I have.

Retirement 101

- Good, clear explanations.
- Make it easy to understand.
- Very well explained benefits plan.
- Information
- Great info.
- Hand out specific to me. I had a meeting within this past year so this new printout provided is helpful. Thank you!
- The personal printout of my account so I can see what is being shared today & how it effects me.
- Really helps clarify my understanding which was very low at beginning.

What did you like least about the program?

- Hearing that the rates are going up for members ☹
- The rush of time.
- Still need more clarifications; but a great introduction. I'll make an appointment later.
- It was all great!
- Nothing.
- Knowing how long till retirement ☺☺
- It was all good!
- A concept that is new to me.
- Increase in deductions.
- Need a personal question time.
- I guess death is never a fun topic of discussion.
- Tier 1 non-grandfathered
- Wish this was done at year one.

Retirement 101

Was the length of the program appropriate (90 minutes)?

Yes	No	No Answer
69	1	2

If not, how long should the program be?

- A morning
- Perfect!

Do you have any suggestions for future programs?

- Thanks for explaining!
- Thank you!
- Thank you for keeping us posted on what is currently going on with TFFR.
- Thank you!
- Info on out-of-state and private school if not vested. How do you find out this info?
- Very good.
- Great job!
- Keep doing what you're doing!
- Offer more often.
- **WOW!**
- No - thank you for the presentation.
- None. ☺
- Thank you!

Business Manager Workshops
Annual Evaluation
2013-2014

Attendees
Evaluations 113

	Excellent	Above Average	Average	Poor
Was the subject material relevant to your needs and/or interests?	72	34	5	

- 2 didn't answer

Comments:

- I am an HR person, not a business manager-but there was good info relevant to me as well.

How knowledgeable, organized, and effective were the speakers?	88	25		

Comments:

- The Brain Teasers were a great touch!
- Presenter was very knowledgeable.
- They are great presenters - always learn a lot.

How would you rate the NDRIO/TFFR website?	39	51	18	1

- 4 didn't answer

Comments:

- Not user friendly.
- Very user friendly.
- Never used.
- Never used it.
- Sometimes a little slow.

How would you rate the service you receive from TFFR staff?	81	28	2	

- 2 didn't answer

Comments:

- They are very helpful and knowledgeable.
- I have not had to deal with staff to date.
- Staff are always friendly & helpful. Thank you!!

	Yes	No
Have you ever referenced the TFFR Employer Guide?	87	25

- 1 didn't answer

Comments:

- Rather visit with a person via phone for important questions. Thank you great TFFR staff!
- Rarely - I usually call! ☺

Business Manager Workshops

Do you read the Briefly newsletter?

Yes	No
96	11

- 6 didn't answer

Comments:

- Great reminders are in the newsletters!
- Not all the time.
- I have just recently started.
- Sometimes. (2)
- Sometimes
- Forward on to P/R
- Sometimes
- I should ☺
- Love this!!

How could we serve you better?

- You're doing a great job -- no complaints!
- Just keep us up-to-date on the changes like you have been.
- I would love to see more opportunity for on-site education for TFFR employees.
- Bring cupcakes again.
- Do it all for us ☺
- Less % contributions - 28% really?
- Doin' good.

Other comments:

- Still trying to work out the penalty and interest! Hurts! Ha!
- Good job!
- I am very new and don't have opinion of TFFR yet.
- Very pleasant and easy to work with.
- Love the chocolate!
- Everyone is so helpful @ TFFR. Thank you!
- Again - very good in ALL categories. Love the candy! ☺
- Doing a great job!
- Well organized - easy to understand.
- Thanks for being so helpful, knowledgeable & friendly! ☺☺
- Thanks for the chocolate.
- Will there ever be a workshop for "new" business managers explaining TFFR regs in detail?
- Thank you!
- Great customer service!!
- Always good info - well organized - informational

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

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

July 16, 2014

Michael Gessner
President
ND Teachers' Fund for Retirement
PO Box 7100
Bismarck ND 58507-7100

RE: CUSTOMER SATISFACTION SURVEY
TEACHERS' FUND FOR RETIREMENT

To ensure that clients receive the highest quality service, the State Investment Board (SIB) is using an annual customer satisfaction survey to determine how well the Board, through the Retirement and Investment Office (RIO) staff, is meeting your expectations and requirements. This survey is part of our ongoing effort to be responsive to our clients' needs and to continually improve the services we deliver.

Your input is very important to us, so we hope you will take a few minutes to provide candid feedback on our services to you during fiscal year 2014. Please email your response back to bheit@nd.gov or return in the enclosed courtesy envelope by August 1, 2014.

Questions about this survey should be addressed to myself, Dottie Thorsen, Internal Audit, Retirement and Investment Office, P.O. Box 7100, Bismarck, ND 58507-7100, telephone number 328-9896 or dthorsen@nd.gov.

Thank you for your time and assistance.

Sincerely,

Dottie Thorsen

Dottie Thorsen
Internal Audit

Enclosures

NORTH DAKOTA STATE INVESTMENT BOARD
CUSTOMER SATISFACTION SURVEY

Is the State Investment Board (SIB), through the Retirement and Investment Office (RIO) staff, providing you with quality service? Please help us measure our performance and identify areas for improvement by rating our service to you during fiscal year 2014. Circle the appropriate response and return the questionnaire in the courtesy envelope to the RIO office.

RATING FACTORS	EXCELLENT	ABOVE AVERAGE	AVERAGE	POOR
Handling of telephone calls promptly and professionally	X	X	X	X
Clarity and effectiveness of letters, reports, and presentations	X	X	X	X
Detail provided on reports	X	X	X	X
Delivery of high-quality service	X	X	X	X
Accessibility	X	X	X	X
Responsiveness	X	X	X	X
Efficiency	X	X	X	X
Knowledge of investments	X	X	X	X

HOW CAN THE SIB AND/OR RIO STAFF IMPROVE THEIR SERVICE TO YOU?

_____

_____

_____

_____

_____

ND Teachers' Fund for Retirement

SIGNATURE _____ DATE _____

Thank you for helping us to serve you better.

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **July 17, 2014**

SUBJ: **Trustee Education**

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

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

Trustee Workshop	July 27 – 30, 2014	Berkeley, CA
Annual Conference	Oct. 11 – 15, 2014	Indianapolis, IN

*See NCTR agendas

- **Callan College**

Intro to Investments	Oct. 28-29, 2014	San Francisco, CA
Standard Session	July 15-16, 2014	San Francisco, CA

*See Callan summary of programs

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

*See attached 2014 public sector training schedule.

Enclosures

NATIONAL COUNCIL ON TEACHER RETIREMENT

◆ 14TH ANNUAL TRUSTEE WORKSHOP ◆

PRESENTED IN AFFILIATION WITH THE UC BERKELEY CENTER FOR EXECUTIVE EDUCATION
AT THE HAAS SCHOOL OF BUSINESS, UNIVERSITY OF CALIFORNIA, BERKELEY

July 27-30, 2014 • Berkeley, California

PRELIMINARY AGENDA

SUNDAY, JULY 27

6:00 pm	Welcome Reception & Dinner (THE DOUBLETREE HOTEL)

MONDAY, JULY 28—TRUSTEE WORKSHOP, DAY ONE

7:30 am	Breakfast for all attendees (THE DOUBLETREE HOTEL)
8:30	Depart for University of California, Berkeley
9:00	**TRUSTEE WORKSHOP BEGINS**
9:15	**LEADERSHIP AND THE ROLE OF THE TRUSTEE**
10:15	Break
10:30	**BEHAVIORAL FINANCE**
Noon	Lunch at UC Berkeley
1:00 pm	**ALTERNATIVES: PRIVATE EQUITY**
2:45	Break
3:00	**ALTERNATIVES: HEDGE FUNDS**
4:30	Return to hotel
6:15	Shuttle to UC Berkeley for dinner
6:30	Dinner (WELLS FARGO ROOM)
8:30	Shuttles begin departing for hotel

TUESDAY, JULY 29—TRUSTEE WORKSHOP, DAY TWO

7:30 am	Breakfast for all attendees (THE DOUBLETREE HOTEL)
8:30	Depart for University of California, Berkeley
9:00	**TRUSTEE WORKSHOP BEGINS**
9:15	**IMPLICATIONS OF LONGEVITY AND HEALTHCARE**
10:30	Break
10:45	**FEDERAL RELATIONS UPDATE**
Noon	Lunch at UC Berkeley

(Continued…)

In affiliation with: center for UC Berkeley executive education

6/23/14

NATIONAL COUNCIL ON TEACHER RETIREMENT

◆ 14TH ANNUAL TRUSTEE WORKSHOP ◆

PRESENTED IN AFFILIATION WITH THE UC BERKELEY CENTER FOR EXECUTIVE EDUCATION
AT THE HAAS SCHOOL OF BUSINESS, UNIVERSITY OF CALIFORNIA, BERKELEY

July 27-30, 2014 • Berkeley, California

PRELIMINARY AGENDA

TUESDAY, JULY 29—TRUSTEE WORKSHOP, DAY TWO (*Continued*)

1:00 pm	**CASE STUDY: ILLINOIS PENSION FUND** ***Based on a Harvard Business Case Study***
2:30	Break
3:00	**MUNICIPAL BANKRUPTCY**
4:30	Return to hotel
6:00	Meet in lobby to depart for offsite dinner

WEDNESDAY, JULY 30—TRUSTEE WORKSHOP, DAY THREE

7:30 am	Breakfast for all attendees (THE DOUBLETREE HOTEL)
8:30	Depart for University of California, Berkeley
9:00	**TRUSTEE WORKSHOP BEGINS**
9:15	**RESPONSIBILITIES**
10:15	Break
10:30	**SYNTHESIS AND REVIEW**
Noon	Lunch at UC Berkeley
1:30 pm	Tour of UC Berkeley campus *(registered guests welcome)*
3:30	Return to hotel
6:30	Depart for offsite dinner

6/23/14

In affiliation with: center for UC Berkeley executive education

92nd Annual Conference

Plan. Invest. Protect.

Preliminary Agenda

◆◆◆

JW Marriott • Indianapolis, Indiana • October 11–15, 2014

◆◆◆

Saturday, October 11

1:00–5:30 pm	**Registration**
10:00 am–Noon	Committee Meetings *(Administrator Education & Trustee Education)*
Noon–1:00 pm	Lunch for Members of NCTR Standing and Special Committees
1:00–3:00 pm	Committee Meetings *(Legislative & Resolutions)*
6:00–7:00 pm	**Welcome Reception** **Dinner on your own**

Sunday, October 12

7:30–8:30 am and 2:30–5:30 pm	Registration
9:00 am	**Shuttle to Brunch**
9:30 am–1:30 pm	**All-Attendee Networking Brunch**
3:00–4:30pm	***Pre-Conference Seminar:* What's Going On in the States?** Moderator: Tom Lussier, Lussier, Gregor, Vienna, & Associates, Inc. • Mary Beth Braitman, Ice Miller • Tom Cavanaugh, Cavanaugh Macdonald Consulting LLC • Dana Dillon, Board Chair, CalSTRS *(Invited)* • Brian Guthrie, Executive Director, Texas TRS • Luke Martel, Sr. Policy Specialist, National Conference of State Legislatures *(Invited)* • Steve Russo, Executive Director, Indiana PRS
5:30–6:30 pm	**Welcome Reception** **Dinner on your own**

Monday, October 13

7:30 am–5:00 pm	Registration
7:30–8:15 am	**Breakfast**

FIRST GENERAL SESSION

Presiding: Tom Lee, NCTR President; and Executive Director/CIO, New York STRS

8:15 am	**Opening of Conference** • Welcome to the Conference: Tom Lee, NCTR President • Pledge of Allegiance • Welcome to Indianapolis: Steve Russo, Executive Director, Indiana PRS
9:00–10:00 am	**Monday Keynote Speaker:** Mara Liasson, National Political Correspondent, NPR **SPEAKER SPONSORSHIP BY WILLIAM BLAIR & COMPANY, L.L.C.**

92nd Annual Conference

Plan. Invest. Protect.

Preliminary Agenda

Monday, October 13 (continued)

10:00–10:30 am	Break
10:30–11:30 am	**Retirement Challenges** Moderator: Jack Ehnes, CEO, CalSTRS • Dallas Salisbury, President/CEO, EBRI • Dean Baker, Co-Director, Center for Economic and Policy Research • Diane Oakley, Executive Director, NIRS
11:45 am	Break for Group Luncheon
11:45am–1:15pm	**Group Luncheon** Charles L. Evans, President and CEO, Federal Reserve Bank of Chicago *(Invited)*

FIRST GENERAL SESSION resumes

1:30–2:30 pm	**Perspectives on Board Governance** Moderator: Carole Wright, Board Chair, Colorado PERA • Michael Hairston, Board Member, ERFC, Fairfax, VA • Beth Kerr, Board Member, Oklahoma TRS • Nancy Williams, Hewitt EnnisKnupp *(Invited)*
2:30–3:00 pm	Break
3:00–4:30 pm	**Evolution of Investment Management** Moderator: Thomas K. Lee, Executive Director/CIO, New York STRS • Laura & John Arnold, Co-Chairs, Laura and John Arnold Foundation *(Invited)* • David G. Bronner, CEO, Retirement Systems of Alabama *(Invited)* • Stephen Cummings, CFA, CEO, Hewitt EnnisKnupp, Inc. *(Invited)* • Nancy K. Kopp, Maryland State Treasurer *(Invited)* • Greg Mennis, Director, Pew Public Sector Retirement Systems Project *(Invited)* • George W. Siguler, Managing Director, Siguler Guff *(Invited)*
4:00 pm	End of First General Session
6:00–7:00 pm	**Reception**
7:00–9:00 pm	**NCTR Annual Dinner**

92nd Annual Conference

Plan. Invest. Protect.

Preliminary Agenda

Tuesday, October 14

7:30 am–Noon	Registration
8:00–8:45 am	**Breakfast**

SECOND GENERAL SESSION

Presiding: Jim Sando, NCTR President-Elect; and Trustee, Pennsylvania PSERS

9:00–10:00 am	**Tuesday Keynote Speaker:** Ian Morrison, PhD, Author, Consultant, Futurist **SPEAKER SPONSORSHIP BY BAILLIE GIFFORD INTERNATIONAL LLC**
10:00–10:30 am	Break
10:30–11:30 am	**Legislative Session with Leigh Snell** • Jill Bachus, NCTR Executive Committee Liaison and Executive Director of Tennessee Consolidated Retirement System • Dean Kenderdine, NCTR Legislative Committee Chair; and Executive Director, Maryland SRPS
11:45 am	Break for Group Luncheon
11:45am–1:15pm	**Group Luncheon**

SECOND GENERAL SESSION resumes

1:30–2:30 pm	**Private Equity**
2:30–3:00 pm	Break
3:00–4:00 pm	**Chief Legal Officers Panel**
4:00 pm	End of Second General Session
4:00–5:00 pm	**Open Forum for Associate Commercial Members** Moderator: Jack Gastler, SVP, Acadian Asset Management LLC *NCTR's Associate Commercial Members are invited to meet with NCTR's Executive Director Meredith Williams and Assistant Executive Director Robyn Gonzales for a candid, unstructured conversation.*
6:00–7:00 pm	**Reception**
7:00–9:00 pm	**National Teacher of the Year Dinner, followed by address** Sean McComb, High School English Teacher, Baltimore, Maryland

92nd Annual Conference

Plan. Invest. Protect.

Preliminary Agenda

Wednesday, October 15

7:30–Noon	Registration
7:30–8:15 am	**Breakfast**

THIRD GENERAL SESSION

Presiding: Jay Stoffel, NCTR Secretary/Treasurer; and Deputy Exec. Dir., Minnesota TRA

8:30–9:30 am	**Wednesday Keynote Speaker:** Lily Eskelsen García, Vice President, NEA *(Invited)*
9:30–10:30 am	**GASB—Communications Challenges** Moderator: Cathie Eitelberg, SVP, National Dir., Public Sector, Segal Group • Barrie Tabin Berger, Assistant Director–Federal Liaison Center, GFOA *(Invited)* • Don Drum, Executive Director, PERS of Idaho • Dearld Snider, Deputy Director, Missouri PSRS
10:30–11:00 am	Break
11:00 am	**Plans as Investors: A CIO Conversation** Moderator: *Deirdre Guice Minor, Exec. Dir.,UBS Global Asset Management (Americas) Inc.* • Chris Ailman, CIO, CalSTRS *(Invited)* • Britt Harris, CIO, Texas TRS • Vicki L. Fuller, CIO, New York State Common Retirement Fund *(Invited)* • Ash Williams, Executive Director & CIO, Florida State Bd. of Administration *(Invited)*
12:30 pm	End of Third General Session
1:00 pm	**System Trustee Luncheon** *(Spouses welcome)*
1:00 pm	**System Director Luncheon** *(Spouses welcome)*
1:00 pm	**All others on own for lunch**

NCTR ANNUAL BUSINESS MEETING

Presiding: Tom Lee, NCTR President; and Executive Director/CIO, New York STRS

2:30 pm	**Welcome** • Committee Reports • Election of Officers • Update on NCTR by Executive Director Meredith Williams
6:00 pm	**Depart for offsite dinner event**
6:30 pm	**Dinner—Last night casual event** (OFF-SITE)

Callan Associates

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

"Callan College"
2014 Schedule

Standard Session
July 15-16, 2014
San Francisco, CA

Defined Contribution Session
August 20, 2014
Chicago, IL

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

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

Contact Us

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

"Callan College"

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

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

- **"Callan College" –**
  An Introduction to Investments

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

types of institutional funds, including a description of their objectives and investment program structures.

- **"Callan College" – Standard Session**

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

- **"Callan College" for Investment Managers**

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

- **"Callan College" – Defined Contribution**

  Callan Associates will share its expertise through a one day educational program on defined contribution plan investing, delivery, and communication/education. Callan's consultants have extensive knowledge and experience in the DC arena and will provide insights relating to the role of the fiduciary; plan investment structure evaluation and implementation; plan monitoring and evaluation; investment and fee policy statements; and meeting the needs of the participant through plan features such as automatic enrollment, Roth designated accounts, managed accounts and advice.

- **Customized Sessions**

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

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2014 Public Sector Program Schedule

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

Update Your Foundation Profile

Is your International Foundation profile complete and up to date? If not, you could be missing out on exclusive news, resources and more. Check your profile today! Log in at www.ifebp.org/myprofile

MK130506

International Foundation OF EMPLOYEE BENEFIT PLANS

12.5M-813

NASRA ISSUE BRIEF:
State and Local Government Spending on Public Employee Retirement Systems

Updated May 2014

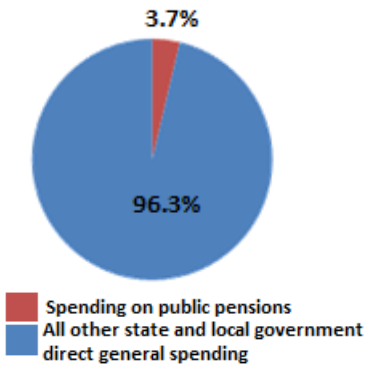
State and local government pension benefits are paid not from general operating revenues, but from trust funds to which public retirees and their employers contributed while they were working. On a nationwide basis, pension contributions made by state and local governments account for roughly 3.7 percent of direct general spending (see Figure 1)[i]. Current pension spending levels, however, vary widely and are sufficient for some entities and insufficient for others.

In the wake of the 2008-09 market decline, nearly every state and many cities have taken steps to improve the financial condition of their retirement plans and to reduce costs. Although some lawmakers have considered closing existing pension plans to new hires, most determined that this would increase—rather than reduce—costs,[ii] particularly in the near-term. Instead, states and cities have made changes to the pension plan by adjusting employee and employer contribution levels, restructuring benefits, or both. Generally, adjustments to pension plans have been proportionate to the plan's funding condition and the degree of change needed.[iii]

Nationwide Spending on Public Pensions

Based on the most recent information provided by the U.S. Census Bureau, approximately 3.7 percent of all state and local government spending is used to fund pension benefits for employees of state and local government.[iv] As shown in Figure 2, pension costs have remained within a narrow range over a 30-year period, declining from around 5 percent to 3.7 percent in 2011.

Figure 1: State and local spending on public pensions as percentage of total government direct general spending, 2011



Compiled by NASRA based on U.S. Census Bureau data

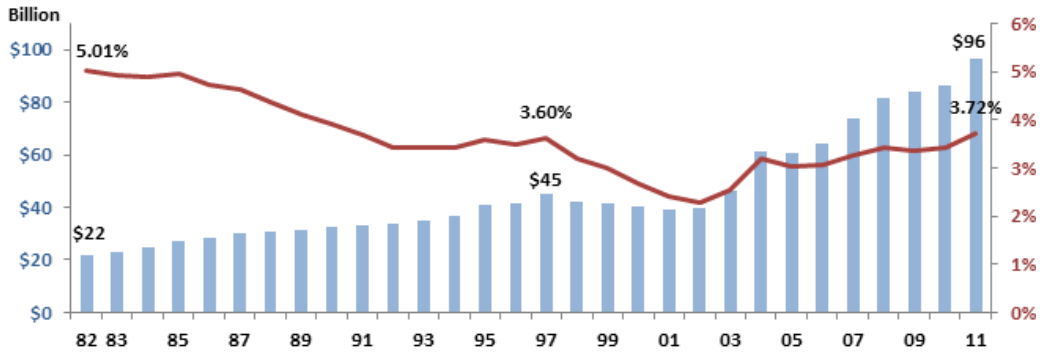
Although pensions are not the state-local budget-drain that some claim they are, as shown in Table 1, spending levels for states and cities do vary from the national average, from just over one percent to more than six percent. Some municipalities have reported higher pension costs as a percentage of their budget. One study estimates that total required spending on pensions could consume as much as 13 percent of one state's budget,[v] due mostly to past failures to adequately fund pension costs and assuming a relatively low five percent investment return. The chronic failure by some pension plan sponsors to pay required contributions results in greater future contributions to make-up the difference.

Most of the variation in pension spending levels is attributable to two factors: differences in benefit levels and variations in the size of unfunded pension liabilities. As a percentage of total spending, pension costs for cities are higher than states by about 32 percent over the 30-year period spanning 1982-2011[vi]. This is due in part to the types of services delivered at the local level and the resulting larger share of municipal budgets that is committed to salaries. Furthermore, the fiscal relationship between a state and its political subdivisions is unique with respect to revenue and spending structure and taxing authority, and varies widely. For example, funding responsibility for K-12 education budgets ranges from primarily a state duty to primarily a local responsibility. Likewise, revenue-sharing arrangements and the authority for local governments to tax and raise revenue also run a wide range. As with states, pension costs for municipalities can vary widely.

Cost and Financing Factors

Public pensions are financed through a combination of contributions from public employers (state and local agencies) and public employees, and the investment returns on those contributions.[vii] Since 1982, investment earnings have accounted for approximately 61 percent of all public pension revenue; employer contributions, 26 percent; and employee contributions, 13 percent.

Figure 2: State and local pension contributions, in dollars, and as a percentage of state and local direct general expenditures, 1982-2011



Compiled by NASRA based on U.S. Census Bureau data

Employee Contributions

Because the vast majority of public employees are required to contribute toward the cost of their pension benefit—typically four to eight percent of pay—most state and local government retirement plans are mandatory savings programs. In recent years, many states have increased required employee contributions. On a national basis, in fiscal year 2011, employee contributions accounted for 30 percent of all public pension plan contributions, with employer contributions making up the remaining 70 percent (see *NASRA Issue Brief: Employee Contributions to Public Pension Funds*, January 2014).

Employer Contributions

A variety of state and local laws and policies guide governmental pension funding practices. Most require employers to contribute what is known as the Annual Required Contribution (ARC), which is the amount needed to finance benefits being accrued each year, plus the cost to amortize unfunded liabilities from past years, minus required employee contributions.

The average ARC received in recent years has been around 90 percent. Beneath this average ARC experience lies diversity: approximately 60 percent of plans in the Public Fund Survey consistently receive 90 percent or more of their ARC.[viii] This means that although a majority of plans have been receiving their required funding, many plans have not been adequately funded, which will result in higher future costs.

Leading national public sector associations established a Pension Funding Task Force, which in 2013 released its report *Pension Funding: A Guide for Elected Officials* urging policymakers to follow recommended guidelines for an actuarially determined contribution to government retirement systems.

Social Security Coverage

Twenty-five to thirty percent of state and local governments and their employees make contributions to their retirement plan instead of to Social Security. This is the case for most to substantially all of the state and local government workforce in seven states, 40 percent of the nation's public school teachers, and a majority of firefighters and police officers. Pension benefits—and costs—for those who do not participate in Social Security are usually higher than for those who do participate, in order to compensate for the absence of Social Security benefits. This higher cost should be considered in the context of the 12.4 percent of payroll, or an estimated $31.2 billion annually,[ix] these employers and employees would otherwise be paying into Social Security.

Investments and Other Parts of the Financing Equation

The largest portion of public pension funding comes from investment earnings, which illustrates the major role this revenue source plays in determining pension costs (see *NASRA Issue Brief: Public Pension Plan Investment Return Assumptions*, April 2014). Other factors that affect pension costs include expectations for wage and general inflation, rates of worker retirement and attrition, and rates of mortality. Expectations for these and other economic and actuarial events typically are based on long timeframes, such as 20 to 50 years.

Although the market decline of 2008-09 lowered public pension fund asset values, macro-economic and demographic events also affect the cost of the plan. These events include such changes as retirement rates, attrition and rates of hiring, and wage growth, which is affected by salary cuts and layoffs. Additionally, legislatures in nearly every state have made changes to pension benefits and/or financing structures, in some cases reducing plan costs and long-term obligations.

Conclusion

On average, retirement programs remain a relatively small part of state and local government spending, although required costs, benefit levels, funding levels, and funding adequacy vary widely. Over $210 billion is distributed annually from these trusts to retirees and their beneficiaries, which reaches virtually every city and town in the nation.[x]

Changes to benefit levels and required employee contributions adopted by states and cities have been diverse, dependent in part on such factors as the legal authority to make changes to benefits or required employee contribution rates, and the plan's financial condition prior to the 2008-09 market decline. Generally, states and cities with a history of paying their required pension contributions are in better condition and have needed more minor adjustments to benefits or financing arrangements compared to those with a history of not adequately making their contributions.

Table 1: State and local government contributions to pensions as a percentage of all state and local government direct general spending, by state, 2011

Alabama	3.48	*Louisiana*	4.61	Oklahoma	3.89
Alaska	2.85	*Maine*	3.10	Oregon	1.81
Arizona	3.26	Maryland	4.07	Pennsylvania	1.85
Arkansas	3.44	*Massachusetts*	4.62	Rhode Island	4.97
California	5.27	Michigan	3.26	South Carolina	2.68
Colorado	2.62	Minnesota	2.00	South Dakota	1.74
Connecticut	4.86	Mississippi	3.17	Tennessee	2.93
Delaware	2.33	Missouri	3.86	*Texas*	2.43
District of Columbia	2.11	Montana	2.72	Utah	3.46
Florida	3.37	Nebraska	2.31	Vermont	1.49
Georgia	2.66	*Nevada* [1]	8.69	Virginia	3.13
Hawaii	4.38	New Hampshire	2.80	Washington	1.79
Idaho	2.67	New Jersey	1.39	West Virginia	5.01
Illinois	6.09	New Mexico	3.09	Wisconsin	2.58
Indiana	3.29	New York	6.23	Wyoming	1.61
Iowa	2.03	North Carolina	1.61	U. S. weighted avg.	3.72
Kansas	2.59	North Dakota	1.56		
Kentucky	4.98	*Ohio*	3.55		

Compiled by NASRA based on U.S. Census Bureau data

Percent-of-spending as of publication date. Figures are subject to periodic revisions by the U.S. Census Bureau. States where more than one-half of public employee payrolls are estimated to be outside of Social Security are italicized.

[1] In addition to being a non-Social Security state, one-half of Nevada PERS employers' contribution is attributable to a non-refundable pre-tax salary reduction to fund the employees' portion of the contribution.

See also

National Governors Association, National Conference of State Legislatures, The Council of State Governments, National Association of Counties, National League of Cities, The U.S. Conference of Mayors, International City/County Management Association, National Council on Teacher Retirement, National Association of State Auditors, Comptrollers and Treasurers, Government Finance Officers Association, and National Association of State Retirement Administrators, "Pension Funding: A Guide for Elected Officials," 2013, http://www.nasra.org/files/JointPublications/PensionFundingGuide.pdf

Center for Retirement Research at Boston College, "The Impact of Public Pensions on State and Local Budgets," October 2010, http://crr.bc.edu/briefs/impact-of-public-pensions-on-state-and-local-budgets/

Center on Budget Priorities and Policies, "Misunderstandings Regarding State Debt, Pensions, and Retiree Health Costs Create Unnecessary Alarm," January 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3372

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[i] Prior published versions of this brief calculated pension spending by state and local governments as a percentage of total state and local spending; this brief reflects a revised methodology which substitutes direct general spending for total spending. Direct general expenditures represent all government spending excluding intergovernmental transfers. Included in this category are payments to current and retired employees, as well as government operations and capital outlays. Some state and local government revenue is non-discretionary, and therefore not in competition for funds with other programs and services. Including non-discretionary spending would make the effect of pension spending appear smaller. In addition, some states and cities do not contribute the amount determined actuarially to adequately fund the plan.

[ii] NASRA.org, "Costs of Switching from a DB to a DC Plan," http://www.nasra.org/switching

[iii] Center for Retirement Research at Boston College, "State and Local Pension Costs: Pre-Crisis, Post-Crisis, and Post-Reform," February 2013

[iv] A similar study conducted by the Center for Retirement at Boston College calculated the cost of pensions to be 3.8 percent for FY 2008, using a calculation that included all state and local spending with the exception of capital expenditures

[v] Center for Retirement Research at Boston College, "The Impact of Public Pensions on State & Local Budgets," supra

[vi] Author's calculations using public pension and state and local government finance data provided by the U.S. Census Bureau

[vii] U.S. Census Bureau, http://www.census.gov/govs/retire/ - Table 2a. Revenues of State and Local Public Employee Retirement Systems by State and Level of Government, Fiscal Year 2011

[viii] Public Fund Survey, http://www.publicfundsurvey.org/

[ix] Author's calculation based on 30 percent of state and local government employees not participating in Social Security

[x] U.S. Census Bureau, http://www.census.gov/govs/retire/ - Table 3a. Expenditures of State and Local Public Employee Retirement Systems ; see also "Economic Effects of Public Pensions," http://www.nasra.org/economiceffects

NASRA Issue Brief
Shared-Risk in Public Retirement Plans
June 2014

Retirement plan designs feature a variety of risk-bearing arrangements, ranging from an employer maintaining sole responsibility for funding guaranteed benefits, to employees bearing the full obligation to finance their own retirement savings. In plans for state and local government workers, risk sharing falls between these extremes. Although most states offer a defined benefit (DB) plan, the typical DB plan also places some level of financial responsibility and risk on both the employer and the employee. The use of shared-financing and shared-risk have grown in recent years as states have modified required employer and employee contributions, restructured benefits, or both[1] and some states also established so-called "hybrid" plans that combine elements of traditional pensions and individual account plans.

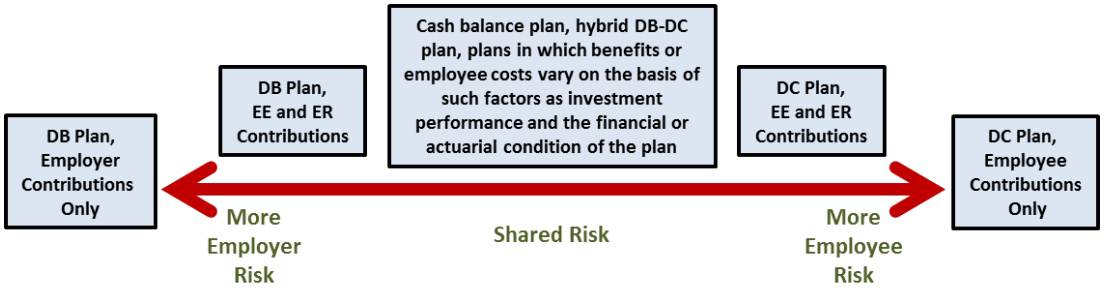
This brief identifies general types of risk present in public sector retirement plans and analyzes longstanding and emergent uses of risk-sharing features enacted by states and designed to meet their specific financing and human resource goals.

Risk

Retirement plan design can take many forms. Sound retirement plan policy meets distinct stakeholder objectives while preserving core elements of public pension plan design that are known to meet human resource and retirement security policies: mandatory participation, shared financing, pooled investments, benefit adequacy, and lifetime benefit payouts.

In a retirement plan, risk manifests itself primarily in three forms: investment risk, longevity risk, and inflation risk. The degree to which risk is shared between employees and employers varies across differing plan designs.

Figure 1: Continuum of Workplace Retirement Plan Risk



Investment Risk

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

Longevity Risk

Longevity risk refers to the risk of outliving retirement assets. Most public sector DB plans require participants to receive all or most of their benefit as an annuity paid out over their retired lifetime. In this model, longevity risk is pooled across plan participants, and the employer bears all of the risk that plan assets are sufficient to cover all such distributions. In a

pure DC system, or any plan that provides a lump-sum amount to employees, longevity risk falls on employees individually who bear all of the risk that the amount accumulated will be exhausted over their retired life.

Inflation Risk

Inflation risk is the potential loss of purchasing power created by the devaluation of money over time. Many sponsors of public defined benefit plans provide retirees with an annual cost-of-living adjustment (COLA) to offset the effects of inflation. Depending on its design, a COLA places a portion of the risk of inflation on the employer. By contrast, defined contribution plans generally do not offer postretirement adjustments, so the employee assumes all inflation risk. Eliminating or reducing inflation risk in a DC plan requires an employee to offset price increases in years when regular income is not produced. Achieving this would require the employee to accumulate a sufficient, but indeterminate, level of assets.

Distributing Risk

Public pensions use a variety of methods to distribute risks between employers and employees. These include policies and practices that share DB plan costs, adjust initial and post-retirement DB benefits, and that increasingly rely on mandatory or automatic enrollment into individual account plans to supplement or supplant primary retirement benefits.

Variable Contributions

In plans for some or all workers in Arizona, Iowa, Nevada, and Pennsylvania, for example, required employee contributions fluctuate depending upon the plan's actuarial or financial condition, and, in some of these plans, are shared equally. These plans essentially share all three of the types of risk discussed above, as changes to investment returns, longevity and inflation can affect a plan's funding condition.

Variable Benefits

Other states share risk by altering benefit levels depending on factors such as system funding ratio, investment performance, inflation, or some combination of these.

For example, the funding policy of the South Dakota Retirement System requires the Board to submit recommendations for benefit reductions, contribution increases (or a combination of both) if, in a given year, contributions fall short of actuarial funding requirements, the plan's funded ratio falls below 80 percent, or the system's market value of assets falls below 90 percent of their actuarial value.[2] In 2010 the state legislature approved a reduction in the retiree cost-of-living adjustment in response to the funded ratio falling below 80 percent; the new COLA provision ties the amount of the COLA to the plan's funding level.

Retired members of the Wisconsin State Retirement System (WRS) receive a benefit that is subject to annual adjustment depending on the performance of plan investments. WRS does not provide an annual COLA to retired members; rather, benefits may be adjusted if the fund experiences investment gains, and increases provided in prior years may be adjusted downward or eliminated entirely in years in which investments perform poorly (reductions may never fall below the base benefit). In 2014, WRS announced the first post-retirement benefit increase in five years after a year of strong investment performance.

Additionally, some states provide variable benefits by offering a conditional COLA which is dependent on the plan's investment performance, funding condition, or other external indicator. These cases are described in detail in the NASRA Issue Brief: Cost-of-Living Adjustments.

Use of Multiple Plan Designs

Increasing reliance on multiple plan designs is one method by which risk is distributed between the employer and employee. Plans such as the Texas Employees Retirement System (ERS), the Georgia Employees Retirement System, and the Virginia Retirement System automatically enroll employees in an individual retirement account, in addition to

requiring mandatory participation in and contributions to the primary DB plan. In the case of Texas ERS, auto-enrollment occurs in a plan that supplements the primary retirement benefit. For Georgia ERS and Virginia, auto-enrollment was installed to offset a reduction made in the primary DB retirement benefit and includes a matching employer contribution to the DC plan. The Rhode Island Employees Retirement system is an example of a retirement plan that requires mandatory employee contributions to both a primary DB plan and an individual account plan, as well as employer contributions to each, to offset a reduction made to the primary DB benefit.

Utah balances employee and employer risk by offering employees a retirement benefit based on a DB plan with a defined contribution component. For employees hired in Utah since July 1, 2011, the employer contributes 10 percent of pay to the employee's choice of a DB or DC plan (plus an amount needed to amortize the unfunded liability of the legacy DB plan). If the cost of the DB plan exceeds 10 percent, the employee must contribute the difference between the cost and the capped employer contribution. The current cost of the DB plan is approximately 8.4 percent; the 1.6 percent difference is directed to each employee's individual DC plan account. (For public safety workers in Utah, the employer contribution is capped at 12 percent of pay; the current cost of the DB plan is 10.91 percent, leaving 1.09 percent to the individual account.)

Additional public sector combination DB/DC plans, as well as cash balance plans, are described in more detail in the standing NASRA Issue Brief: State Hybrid Retirement Plans.

Formal and De Facto Risk Sharing

Employee and employer risk sharing that is codified in statute or stipulated in policy and known in advance to stakeholders might be considered a *formal risk-sharing plan*. By contrast, benefit reductions or cost increases that are imposed anew upon current employees, retirees, or both, might be described as *de facto risk sharing*. Such *de facto risk sharing* changes have been made in recent years to public retirement plan participants in many states, in the form of higher employee contributions, reduced cost-of-living adjustments, longer vesting periods, a higher age or years of service required to qualify for a retirement benefit, and others.

A key difference between *formal* and *de facto risk-sharing plans* is that in the case of *formal risk-sharing* features, changes to plan benefits and costs are known and understood in advance, whereas *de facto risk-sharing* is introduced after participants already are in the plan. Many of the plan design examples discussed above would be considered formal risk-sharing plans. *De facto* plan changes typically are the outcome of a political or negotiated process involving plan stakeholders, as has occurred in many states in recent years where higher contributions, lower benefits, or both have been imposed on existing plan participants. Colorado, for example, reduced the COLA provision for all participants in the PERA, including current retired members; and raised contributions for all active members. Similarly, Ohio made changes affecting most active plan participants in the state, including reduced retirement benefits and COLA provisions. Many states have raised employee contributions for current working plan members. Considered in this context, essentially every public retirement plan could be considered some form of a risk-sharing plan.

Conclusion

Most public pension plans share risks between employees and employers. Ultimately, the plan design will dictate the degree to which risk is borne by each group. The diversity of retirement plan design currently in place for public employees reflects the fact that a one-size-fits-all solution does not meet every state's human resources needs, fiscal conditions, and statutory and political frameworks. States have developed a wide range of plan designs that allocate risks between employers and employees, in most cases while continuing to retain core elements of public pension plan design that best meet the needs of all stakeholders: mandatory participation, shared financing, pooled investments, benefit adequacy, and lifetime benefit payouts.

See Also

National Association of State Retirement Administrators, Issue Brief: State Hybrid Retirement Plans, September 2013, http://www.nasra.org/hybridbrief

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Government Finance Officers Association, *Essential Design Elements of Hybrid Retirement Plans* http://www.nasra.org/Files/Topical%20Reports/Hybrids/HybridPlansFINAL.pdf

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[1] NASRA, "Costs of Changing Plan Design," http://www.nasra.org/switching

[2] Codified Laws of South Dakota, Chapter 3-12-122; http://legis.sd.gov/Statutes/Codified_Laws/DisplayStatute.aspx?Type=Statute&Statute=3-12-122

Appendix A: Major Employer and Employee Risks in Common Public Retirement Plan Designs*

The table below describes the distribution of key risks in three types of risk-sharing plans. In a pure defined benefit plan, all risk is borne by the employer, and in a pure defined contribution plan, the employee bears all the risk.

	Cash Balance	**Combination Defined Benefit/Defined Contribution**	**Shared Risk DB Arrangements**
Investment risk	Assets are pooled and invested by professionals and specified annual returns are provided on notional participant accounts. The employer bears the risk of meeting the minimum guaranteed return rate.	For the DB component, risk is on the employer to attain the investment return assumption. For the DC component, risk is on the employee.	Assets are pooled and professionally managed, but market risk is shared between employees and employers via contribution rates or cost-of-living adjustments, which can be altered depending the actuarial and financial condition of the plan.
Longevity Risk	Notional accounts are converted into a lifetime benefit that spreads risk across plan participants. Employer bears risk that accumulated assets will cover required distributions. In plans or options that provide employees with access to a lump-sum benefit, risk is borne by employee.	For DB component, risk on the employer. For DC component, risk is on the employee. Some plans require or allow employees to convert their DC account into a lifetime benefit.	Risk is shared between employees and employers to the extent that contribution rates for each can be altered depending on the actuarial and financial condition of the plan
Inflation Risk	If a COLA is provided, the risk is on the employer. If no COLA is provided, the risk of inflation is borne by the employee.	If the DB component includes a COLA, the employer bears the risk. In the DC component, the risk is borne by the employee. In some cases, DC accounts may be converted into an annuity, in which case, if a COLA is provided, that inflation risk is borne by the employer.	If a COLA is provided, the risk is on the employer; if COLA does not keep up with inflation, the risk is on the employee. Since contribution rates vary for each depending on the actuarial and financial condition of the plan, both bear some of this risk.

** Generally financed through employer and employee contributions*

CENTER for RETIREMENT RESEARCH at BOSTON COLLEGE

State and Local Pension Plans

Number 38, May 2014

COLA CUTS IN STATE/LOCAL PENSIONS

*By Alicia H. Munnell, Jean-Pierre Aubry, and Mark Cafarelli**

Introduction

One of the more surprising responses of public plan sponsors to the financial crisis and the ensuing recession was their reduction, suspension, or elimination of cost-of-living adjustments (COLA) for current workers and, in a number of cases, current retirees. The response was surprising because it has often been assumed that public plan participants have greater benefit protections than their private sector counterparts. The Employee Retirement Income Security Act of 1974 (ERISA), which governs private pensions, protects accrued benefits, but it allows employers to change the terms going forward. In contrast, most states have legal provisions that constrain sponsors' ability to make changes to *future* benefits for current workers. Yet they were able to change the COLA for current workers and often for people already receiving it. This *brief* provides an overview of the COLA changes made to date, discusses the impact of eliminating COLAs on benefits, and explores the extent to which the courts view COLAs differently from 'core' benefits.

COLAs in 2009

The defined benefit plans in the public sector generally calculate the initial benefit as a product of three elements: the plan's benefit factor, the number of years of employee service, and the employee's average earnings. In order to mitigate the effect of inflation on retirement income, most public plans provide retirees with a post-retirement COLA.

COLAs come in four main forms: 1) fixed rate – the increase is a constant percentage or dollar amount that is not tied to the Consumer Price Index (CPI); 2) CPI-linked – the increase is tied to the CPI; 3) ad-hoc – the increase is set by the legislature and revised on an ad-hoc basis; and 4) investment-based – the increase is tied to some financial metric, generally the plan's overall funded level or the level of assets in a special COLA fund. As of 2009, about 75 percent of public plans provided automatic increases – either fixed rate or CPI-linked (see Figure 1, on the next page). Roughly half of these were linked to the CPI, and these increases were generally capped at 3 percent; the other half applied automatic adjustments

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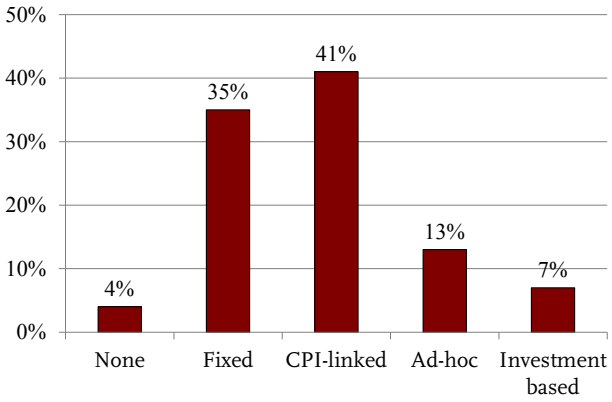
at a fixed rate specified by the plan. The remaining plans provided increases either on an ad hoc basis or linked to investment returns.

Figure 1. Distribution of State and Local Plans, by COLA Type, 2009



Source: Public Plans Database (2009).

These COLAs warrant some comment. First, trying to maintain the real purchasing power of benefits in retirement is a laudable goal. It makes little sense to leave the well-being of retirees to the vagaries of the economy. Second, inflation protection is particularly important to the 25-30 percent of state and local workers who are not covered by Social Security, which provides full inflation protection. Third, providing full inflation protection is a risky undertaking for state and local governments because few states have economies that can ensure the revenues to cover this type of commitment. Thus, it is not surprising that many CPI-linked COLAs are capped. Finally, and importantly when thinking about the legal ramifications of cutting or eliminating COLAs, these arrangements do not exist in private sector defined benefit plans, where sponsors virtually never provide regular post-retirement adjustments.

Changes to COLAs, 2010-2013

Between 2010 and 2013, 17 states (with a total of 30 plans) enacted legislation that reduced, suspended, or eliminated COLAs for current workers and often for current retirees (see Figure 2).[1]

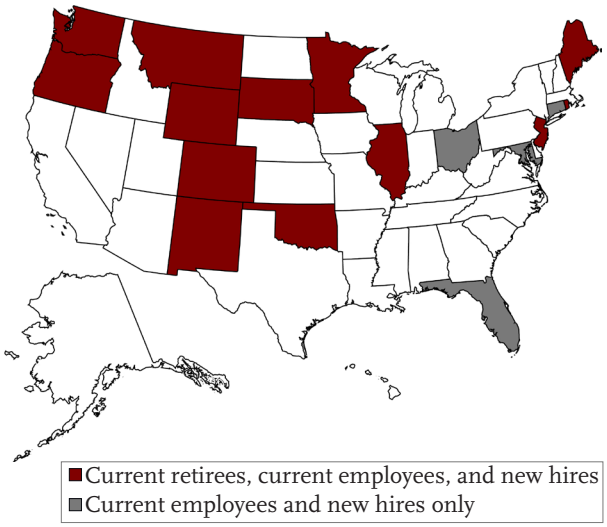
Cutting COLAs is an extremely attractive option to plan sponsors, because it is virtually the only way to make large reductions in a plan's unfunded liability. Reducing benefits for new hires or even future benefits for current employees – if legally possible – lowers future pension costs but has no effect on the existing liability. The existing liability represents benefits already earned, including promised COLAs. To the extent that the cost of future COLA payments is embedded in the liability estimate, cutting COLAs reduces the unfunded liability.

All the COLA changes represent a cut in benefits, but the magnitude of the cuts varies. They essentially fall into three groups: 1) virtually eliminating the COLA for the foreseeable future; 2) reducing guaranteed fixed amounts; and 3) reducing caps for CPI-linked COLAs.

Eliminated COLAs for Foreseeable Future

Three states with seriously underfunded plans – New Jersey, Rhode Island, and Oklahoma – essentially eliminated the COLA for the foreseeable future. New Jersey terminated all post-retirement COLAs for current and future retirees until the plans are 80 percent funded, at which point a committee will be formed to determine whether COLAs will be reactivated. Since the state has allowed funding to decline since the legislation, the prospect of 80 percent funding is very unlikely. In 2011, Rhode Island also suspended the

Figure 2. States Eliminating, Suspending, or Reducing COLAs for Current Workers and/or Retirees



Note: Washington state closed its plan.
Sources: National Association of State Retirement Administrators (2014); and National Conference of State Legislatures (1999-2014).

COLA until the plan is 80 percent funded and tied the COLA to the investment performance of the fund thereafter. Under a mediation agreement reached in February 2014, the COLA would have been linked to the CPI as well as investment performance. However, in April 2014, the mediation agreement was rejected by police union members, so the parties are headed back to court.[2] Oklahoma required that any COLA must be prefunded at the time of enactment, making future COLAs very unlikely.

Reduced Guarantees

Interestingly, the vast majority of states that changed their COLA had a fixed guarantee of 2.5-3.5 percent compounded annually, regardless of what was happening to inflation. These states include Colorado, Florida, Illinois, Minnesota, Montana, New Mexico, Ohio, and South Dakota. In the current low-inflation environment, such guaranteed adjustments more than compensate for increasing prices and therefore produce increasing real benefits after retirement. Three states (Colorado, Ohio, and South Dakota) abandoned the guarantee and linked future COLAs to changes in the CPI, with both Colorado and South Dakota including provisions that link the COLA to funded status as well. Two states (Minnesota, and Montana) reduced the guarantee and linked future increases to the funded status of the plan. Illinois and New Mexico simply reduced the amount of the guarantee. Florida suspended the COLA for several years, but plans to reinstate a 3-percent guaranteed increase in 2016.

Lowered Caps on CPI-Linked COLAs

Six states with CPI-linked COLAs cut their COLAs. Maine and Maryland reduced the cap on the CPI adjustment, with Maryland linking the cap to investment returns. Oregon moved away from CPI-linking entirely, providing instead fixed COLA guarantees that vary inversely with benefit levels.[3] Washington suspended the COLA indefinitely for PERS 1 (a closed plan), and Wyoming suspended the COLA until the plan is 100 percent funded. Since the plan is currently 84.5 percent funded, 100 percent is a feasible target. Connecticut lowered its minimum COLA from 2.5 percent to 2 percent.

Magnitude of COLA Cuts

A simple model suggests that eliminating a 2-percent compounded COLA reduces lifetime benefits by 15-17 percent (see Table 1). Eliminating a 3-percent COLA on the same initial benefit reduces lifetime benefits by 22-25 percent. The ranges reflect the impact of the assumed discount rate on the magnitude of the cut. With high discount rates, COLAs scheduled in the out years are not very valuable when discounted to the present; with low interest rates they are more valuable and the loss greater. Reductions in guarantees or lowered caps on CPI-linked COLAs have a lesser impact.

The seriousness of the effect on retirees depends critically on whether state and local workers are covered by Social Security. Social Security benefits are fully adjusted for price increases, so those with coverage are assured that at least their basic retirement income is inflation protected.

Four states that cut their COLA – Colorado, Illinois, Maine, and Ohio – have plans where workers are not covered by Social Security. It is worth taking a closer look at the cuts in these states.

- Colorado lowered the COLA from 3.5 percent to a modified 2 percent for those hired prior to 2007, and shifted to a CPI-linked COLA with a 2 percent cap for those hired during or after 2007.[4]
- Illinois, where participants in SURS and TRS are not covered by Social Security, reduced the COLA for those hired before 2010 from a guaranteed

Table 1. COLAs as a Percent of Total Lifetime Benefits by Discount Rate Assumption

COLA	Discount rate				
	7.75%	7.00%	6.00%	5.00%	4.00%
2.0 percent	14.7%	15.2%	15.9%	16.7%	17.4%
2.5 percent	18.2	18.9	19.7	20.6	21.5
3.0 percent	21.7	22.4	23.4	24.4	25.4

Note: Estimates assume a retirement age of 60 and an initial benefit of $35,000.
Source: Authors' calculations.

3 percent to 3 percent of the lesser of: 1) their current benefit; or 2) $1,000 multiplied by years of service.[5] Those who retire during or after July 2014 will receive COLAs only every other year for the next 10 years.[6]

- Maine froze its CPI-linked COLA for three years (2011-2013) and reduced the cap from 4 percent to 3 percent of the first $20,000 thereafter.
- Ohio changed its three major plans, all of which rely on a simple – rather than a compounded – COLA. Ohio PERS and Ohio Police and Fire moved from a 3-percent guarantee to a CPI-linked, with a 3-percent cap. Ohio STRS simply reduced the guarantee from 3 to 2 percent, but also suspended COLAS for existing retirees from July 1, 2013 to June 30, 2014.

If inflation remains low (less than 2 percent), most public employees in the four states will not be seriously hurt by the changes in the COLA. Even at low inflation rates, however, those with higher benefits in Illinois and Maine will be affected, as these states have targeted their COLAs to retirees with benefits below $30,000 and $20,000, respectively. If inflation rises to 3 or 4 percent, participants in all four states at all benefit levels will see the real value of their entire retirement income erode.

How Did the Courts React?

Before looking at how the courts reacted to lawsuits seeking to prevent the COLA cuts, it is useful to have a little background on the legal protections afforded benefits provided by state and local pension plans. Generally public pensions appear to be better protected than pensions provided in the private sector. In the private sector, ERISA protects benefits earned to date but permits the sponsor to adjust *future* benefits. In contrast, many states face legal constraints on the ability to change future benefits for current workers.

Most states protect pensions under a contracts-based approach. The federal Constitution's Contract Clause and similar provisions in state constitutions prohibit a state from passing any law that impairs existing public or private contracts.[7] A handful of states that protect pensions under the contract theory have state constitutional provisions that expressly prevent the state from amending the plan in any way that would produce benefits lower than participants expected at the time of employment. Illinois and New York have such a provision. Alaska has language that specifically applies only to accrued benefits, but the courts have interpreted the provision to protect all benefits from the time participants enroll.[8]

Table 2, which is based on an earlier study of legal protections, categorizes the states as of 2012 by the extent to which benefit accruals are protected and the legal basis for that protection.[9] States that appear in bold have cut their COLA. Interestingly, these states are not concentrated among those with the least protection, but rather are distributed evenly across all three groups.

Of the 17 states that changed their COLA, 12 have been challenged in court. The courts have ruled in nine states and in all but one case have upheld the cut. The Rhode Island proposals to cut the COLA withstood the mediation process with only minor changes but, as noted, police union members subsequently rejected the mediation agreement. Table 3 (on the next page) summarizes the status of these suits. Suits have been filed in Illinois and Oregon, but no decisions have been reached.

The main rationale for allowing the COLA cut is that COLAs are not considered to be a contractual right. For example, in Colorado, where the decision

Table 2. Legal Basis for Protection of Public Pension Rights under State Laws

Legal basis	Accruals protected			
	Past and future	Past and maybe future	Past only	None
State constitution	AK, **IL**, NY	AZ	HI, LA, MI	
Contract	AL, CA, GA, KS, MA, NE, NV, NH, ND, **OR** PA, TN, VT, **WA**, WV	**CO**, ID, **MD**, MS, **NJ** **RI**, SC	AR, DE, **FL**, IA, KY, MO, **MT** NC, **OK**, **SD**, UT, VA	
Property	**ME**, **WY**	**CT**, **NM**, **OH**	WI	
Promissory estoppel[a]	**MN**			
Gratuity				IN, TX

[a] Promissory estoppel is the protection of a promise even where no contract has been explicitly stated.
Source: Munnell and Quinby (2012).

is currently under appeal, the judge found that the plaintiffs had no vested contract right to a specific COLA amount for life without change and that the plaintiffs could have no reasonable expectation of a specific COLA amount for life given that the General Assembly has changed the COLA formula numerous times over the past 40 years. In Minnesota, the judge ruled both that the COLA was not a protected core benefit and that the COLA modification was necessary to prevent the long-term fiscal deterioration of the pension plan.[10] The courts clearly view COLAs very differently than core benefits. At this point, the legal hurdles to cutting COLAs appear to be quite low.

Conclusion

How state and local defined benefit promises have actually played out in the public sector in the wake of the financial crisis is an interesting story. Public plan participants were thought to have a higher degree of protection than their private sector counterparts. Whereas ERISA protects benefits earned to date, participants may end up with less than expected if their employer closes down the plan for reasons of economy or bankruptcy and the benefit formula is applied to today's earnings rather than to the higher earnings at retirement. In contrast, in many states the constitution prescribes, or the courts have ruled, that the public employer is prohibited from modifying the plan. This prohibition means that employees hired under a public retirement plan have the right to earn benefits as long as their employment continues. Thus if the employer wants to reduce the future accruals of benefits, such a change usually applies only to new hires.

On the other hand, in the wake of the financial crisis, in many instances the "pension wealth" of both current employees and retirees has been reduced through reductions in the COLA. Courts apparently do not view COLAs as a core benefit protected under the laws of the state. One wonders how COLAs would be treated under ERISA in the private sector. Of course, almost no private sector defined benefit plans have COLAs, so a direct comparison is not possible.

The key point is that defined benefit promises in the public sector are not as secure as one would have thought before the financial crisis. It was the belief that they were guaranteed that led economists to argue that the liabilities should be discounted by the riskless rate for valuation purposes. But when the stock market collapsed, benefit promises were in many cases reduced.

Table 3. Responses to COLA Cuts, 2010-14

State	COLA cut upheld	Rationale	Court/ process	Date	On appeal
CO	Yes	COLA not a contractual right	State District	2011	Yes
FL	Yes	COLA not protected under applicable state law	State Supreme	2013	
ME	Yes	COLA not a contractual right	US District	2013	
MN	Yes	COLA not a contractual right	State District	2011	
MT	Yes	Complaint dismissed*	State District	2013	
NJ	NA	Complaint dismissed for lack of jurisdiction	US District	2012	
	Yes	Complaint dismissed**	State Superior	2012	Yes
NM	Yes	COLA not a contractual right	State Supreme	2013	
RI	Yes	NA	Mediation	2014	Mediation rejected
SD	Yes	COLA not a contractual right	State Circuit	2012	
WA	No	Illegal impairment of contract	State Superior	2011	Yes

*The court refused to issue a preliminary injunction, finding it was not clear that plaintiffs would be successful in proving that the COLA was protected as a contractual right.
** No written opinion.
Sources: National Association of State Retirement Administrators (2014); National Conference of State Legislatures (1999-2014); Buck (2011 and 2013); and various court cases.

Endnotes

1 Arizona and South Carolina have also been involved in COLA changes in recent years. Arizona, in 2011, revised the COLA structure for members of three of its smaller state-administered plans covering public safety personnel, corrections officers and elected officials. Previously, the plans granted COLAs on an ad-hoc basis funded by investment returns in excess of 9 percent, with the COLAs not to exceed 4 percent annually. The 2011 law increased the excess return threshold from 9 to 10.5 percent and linked the allowable COLA increase to the funded ratio of the plan. But these changes were soon challenged and ultimately overturned in 2012 by the Superior Court of Arizona, returning COLA provisions to the their pre-2011 levels. A subsequent appeal by the State of Arizona in 2014 failed. South Carolina passed legislation in 2012 to change its COLA, but the goal was to increase, not reduce, the COLA.

2 As part of the mediation process, the agreement had to be approved by six groups representing state and local employees. Of the six groups, the Police MERS bargaining unit was the only one to reject the agreement.

3 The COLA for those who have earned an annual benefit under $20,000 is 2 percent; between $20,001 and $40,000 is $400 plus 1.5 percent; between $40,001 and $60,000 is $700 plus 1 percent; and over $60,000 is $900 plus 0.25 percent.

4 Both the modified COLA and the COLA cap increase by 0.25 percent if the funded status reaches more than 103 percent, but decrease by 0.25 percent if the fund reaches at least 103 percent funded and then drops below 90 percent funded. If the plan experiences negative investment returns in any year, all COLAs become CPI-linked for the next three years. At no point can the COLA be less than 0 percent.

5 For example, for a retiree with 30 years of service and a benefit of $40,000, the COLA will be the lesser of: 1) 3 percent of $40,000 or $1,200; or 2) 3 percent of $30,000 (30 years of service x $1,000) or $900. The alternative formulation serves as a cap.

6 The period of intermittent COLA payments is phased in based upon a member's age as of June 1, 2014. The younger the employee, the longer the period. For those age 50 or over, COLA payments will be skipped in the second year of retirement only. For those age 47-50, no COLAs will be paid in the 4th and 6th years of retirement. For those age 44-47, no COLAs will be paid in the 2nd, 4th, 6th, and 8th years of retirement. And finally, for those age 43 and under, no COLAs will be paid in the 2nd, 4th, 6th, 8th, and 10th years of retirement.

7 To determine whether a state action is unconstitutional under the Contract Clause, the courts undertake a three-part test. First, they determine whether a contract exists. This part of the test involves determining when the contract is formed and what the contract protects. Second, the courts determine whether the state action constitutes a substantial impairment. If the impairment is substantial, then the court must determine whether the action is justified by an important public purpose and if the action taken in the public interest is reasonable and necessary. This approach sets a high bar for changing future benefits.

8 Arizona's language is less clear, but prior court rulings suggest that the protection extends to future as well as accrued benefits. In these states, changing benefits for existing employees is virtually impossible. The only real option is to amend the state constitution. In contrast, Hawaii, Louisiana, and Michigan have constitutional provisions that have been interpreted as protecting only benefits earned to date.

9 Munnell and Quinby (2012).

10 The judge deciding the case made an additional point about Minnesota TRS, which not only reduced COLAs but cut other benefits for actives and raised contributions for both active teachers and school districts: "In exercising its authority here, the legislative change to the statutory adjustment formula was a comprehensive package of amendments that spread the burden and sacrifice of stabilizing the Plans across all members, the State, and the taxpayers..."

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The mission of the Center for Retirement Research at Boston College is to produce first-class research and educational tools and forge a strong link between the academic community and decision-makers in the public and private sectors around an issue of critical importance to the nation's future. To achieve this mission, the Center sponsors a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception in 1998, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

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Center for State & Local Government Excellence

Issue Brief

The Funding of State and Local Pensions: 2013–2017

June 2014

Have state and local government pension plans recovered from the 2008 economic downturn? Despite double-digit stock market gains in 2013, researchers from the Center for Retirement Research at Boston College (CRR) explain that the recent gains will not show up until 2014, as many plans smooth in stock market losses or gains over five years.

The CRR analysis includes 114 state and 36 local pension plans. The key findings are:

- Funded levels among plans vary significantly.
- Overall, the aggregate funded ratio of assets to liabilities is 72 percent.
- There is slight improvement in 2013 at the top: 6 percent are 100 percent funded or better; 28 percent are more than 80 percent funded.
- Plan sponsors have been paying 80 percent of their annual required contribution (ARC), with some paying the full amount and others paying less.

Also noteworthy is the brief's focus on changes in accounting standards. It calculates liabilities under current and new accounting standards issued by the Governmental Accounting Standards Board (GASB).

With so much focus on accounting, the importance of a funding plan only grows. The national associations representing local and state governments released "Pension Funding: A Guide for Elected Officials" in 2013 to provide guidance. It includes these five recommendations from the Pension Funding Task Force:

1) Base pension funding policy on actuarially determined ARC.

2) Be disciplined about funding so that promised benefits can be paid.

3) Maintain intergenerational equity.

4) Manage employer costs so they are a consistent percentage of payroll.

5) Require clear reporting on how and when plans will be fully funded.

Although there will be new GASB accounting calculations to report on balance sheets in 2014, state and local officials give greater attention to the funding calculations developed by actuaries. The actuarial figure is what is used to make annual budget decisions. What's the difference in the accounting and funding issues? For a short summary of the differences in pension calculations used for accounting purposes, bond ratings, and budgets, see Understanding New Public Pension Funding Guidelines and Calculations.

The Center for State and Local Government Excellence gratefully acknowledges the financial support from ICMA-RC to undertake this research project.

Elizabeth K. Kellar

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Center for State and Local Government Excellence

The Funding of State and Local Pensions: 2013–2017

By Alicia H. Munnell, Jean-Pierre Aubry, and Mark Cafarelli *

Introduction

The funded status of our sample of state and local pension plans remained unchanged in 2013, despite the very strong stock market performance during the year. The main reason is that asset values are generally averaged over a five-year period (2009–2013), and these averages—which still include the disastrous returns in 2009—increased only modestly. This is the last year, however, that asset values will be smoothed. In 2014, under the Governmental Accounting Standards Board's (GASB) new provisions, funded ratios will be based on current market values, so recent stock market performance will provide a better clue as to changes in funding. The new GASB proposals will also require some plans—those whose assets are projected to be insufficient to cover future benefits—to use a lower rate to calculate liabilities. To get a sense of the impact of the transition to the new funding standards, this update reports projections for the period 2014–2017 under both the old and new GASB standards.

The discussion is organized as follows. The first section describes our expanded sample of 150 plans and reports that the ratio of assets to liabilities stayed steady at 72 percent in 2013. The second section shows that the Annual Required Contribution (ARC) increased to 17.6 percent of payrolls, while the percent of ARC paid increased to about 83 percent. These funded ratios and ARCs, however, are based on promised benefits discounted by the expected long-term yield on plan assets, roughly 7.7 percent, so the third section revalues liabilities using the riskless rate, as advocated by most economists for *reporting* purposes. The fourth section projects funded ratios for our sample plans for 2014–2017 under three alternative economic scenarios and under both the old and new GASB standards. The final section concludes that while the shift in GASB standards will make monitoring funding more difficult, the public pension landscape should improve over the next few years if financial markets do not collapse again.

Funded Status In 2013

Before reporting on the funded status for fiscal year 2013, it should be noted that the *Public Plans Database* sample has been expanded from 126 to 150 plans. The expansion involved removing three Washington State plans, which have been closed to new hires for more than 30 years, and adding 10 new state plans and 17 new local plans. The new state plans, which all have more than $1.5 billion in liabilities (the size of the Vermont State ERS, the smallest state plan in the original sample of 126), increased the total number of state plans to 114. The new local plans, which tend to be large, raised the number of local plans to 36. The additional plans make up about 5 percent of the assets and 6 percent of the liabilities in the new sample of 150 plans. All the calculations reported below were carried out for both the original and expanded sample, and the results were very similar.

In 2013, the estimated aggregate ratio of assets to liabilities for our expanded sample was 72 percent under GASB's old standards.[1] (The ratio for each individual plan appears in the Appendix). This ratio is equal to the 2012 level, where it has hovered since the financial crisis (see Figure 1, pg. 4).

Because only about two-thirds of our sample of 150 plans had reported their funded levels by early May 2013, the 2013 aggregate figure involves some estimates. As in previous years, for those plans without 2013 valuations, assets and liabilities are estimated on a plan-by-plan basis.[2] This process resulted in a complete set of plan funded ratios for FY 2013. In the aggregate, the actuarial value of assets amounted to $2.9 trillion and liabilities amounted to $4.1 trillion, producing the funded ratio of 72 percent.

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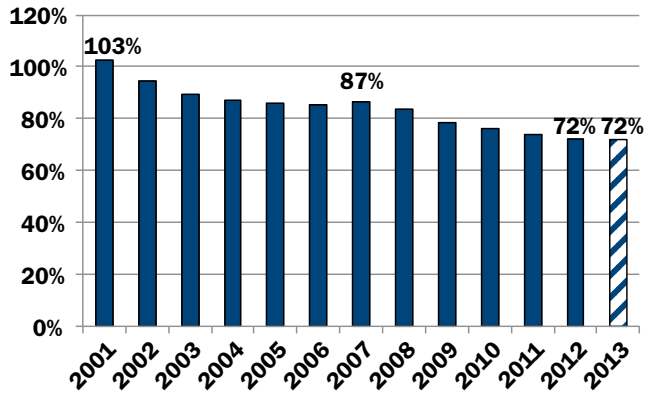
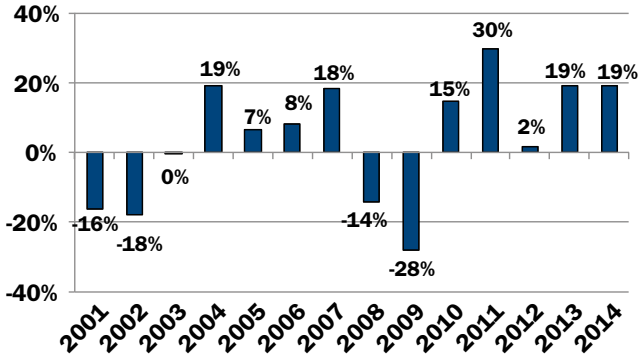
Figure 1. *State and local pension funded ratios, FY 2001–2013*



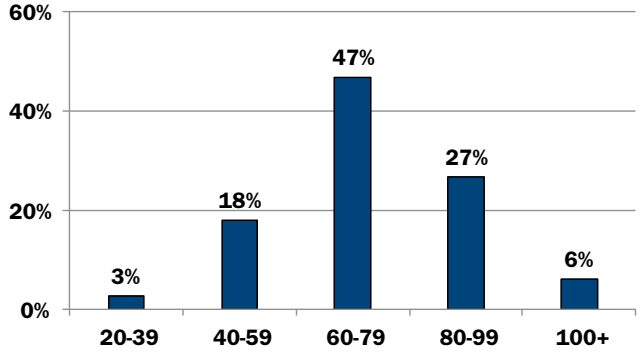
Note: 2013 involves estimates for about one-third of plans.
Sources: Various 2013 actuarial valuations and Public Plans Database (PPD) (2001–2013).

Figure 2. *Percent change in Wilshire 5000 Index, FY 2001–2014*



Note: Data for 2014 available through May 27, 2014.
Source: Wilshire Associates (2014).

Figure 3. *Distribution of funded ratios for public plans, FY 2013*



Sources: Various 2013 actuarial valuations and authors' calculations from the PPD (2013).

The reason that the funded ratio remained unchanged is twofold. First, despite the fact that the stock market surged in FY 2013 (see Figure 2) and plans hold more than half of their investments in equities, the actuarially smoothed value of plan assets increased by only 2 percent over the same period.[3] Second, CalPERS, one of the largest plans in the nation, changed its assumptions and the way it values assets, reducing its funded ratio from 83 percent in 2012 to 69 percent in 2013. If CalPERS had retained its old method, the funded ratio for our sample of 150 plans would have increased to 73 percent.

In 2013, as in earlier years, funded levels among plans vary substantially. Figure 3 shows the distribution of funding for the sample of 150 plans. Although many of the poorly funded plans are relatively small, several large plans, such as those in Illinois (SERS, Teachers, and Universities) and Connecticut (SERS), had funded levels below 50 percent.

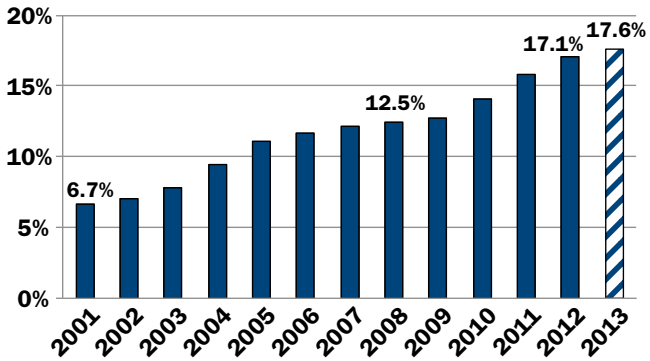
The ARC

The ARC, as defined by GASB, is the payment required to keep the plan on a steady path toward full funding. (The new GASB standards, which take effect in 2014, no longer require plan sponsors to report the ARC.) The ARC equals normal cost—the present value of the benefits accrued in a given year—plus a payment to amortize the unfunded liability, generally over a 30-year period. Each year the plan sponsor reports the ratio of the employers' actual contribution to the ARC. The ARC is an extremely important metric, because as long as sponsors pay their full ARC they will not get in trouble. At a minimum, the ARC should be calculated to cover normal cost plus the interest on the unfunded liability to prevent the unfunded liability from growing.

The ARC has increased significantly in the last four years, primarily because the financial crisis led to higher unfunded liabilities and thereby increased the amortization component of the ARC. In 2013, the ARC was 17.6 percent of payroll, up sharply from 2012 (see Figure 4, pg. 5).

The increase in the ARC occurred just as the recession eroded state and local government revenues. As a result, states and localities cut back on their pension contributions. As revenues have started to recover, sponsors appear to be paying an increasing share of their required contribution. In 2013, they paid 83 percent of the required amount (see Figure 5, pg. 5). Hopefully, this trend will continue as the economy improves, mirroring the pattern of decline and recovery evident in the wake of the bursting of the dot-com bubble in 2000–2001.

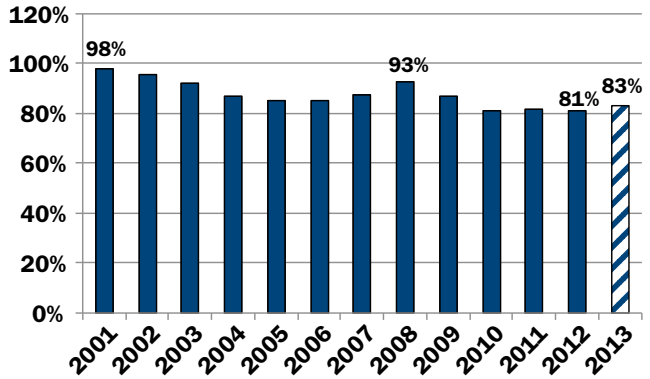
Figure 4. *Annual required contribution as a percent of payroll, FY 2001–2013*



Note: 2013 involves projections for about one-third of plans.

Sources: Various 2013 actuarial valuations and PPD (2001–2013).

Figure 5. *Percent of annual required contribution paid, FY 2001–2013*



Note: 2013 is authors' estimate.

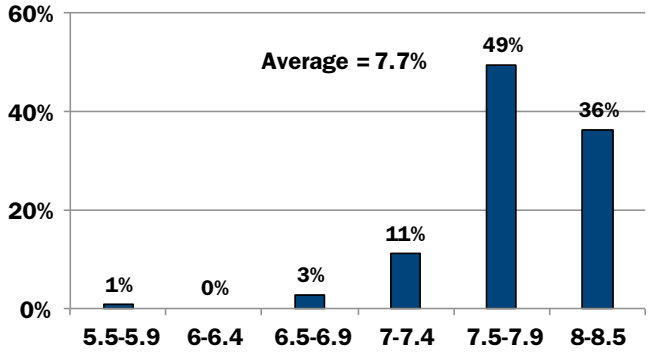
Sources: Various 2013 actuarial valuations and PPD (2001–2013).

Liabilities at the Riskless Rate

The funded ratios presented above follow GASB's existing standards under which assets are reported on an actuarially smoothed basis and the discount rate is the long-run expected rate of return, which has moved from around 8.0 percent to 7.7 percent in 2013 (see Figure 6). These ratios have been challenged by financial economists who argue that—*for reporting purposes*—future streams of payment should be discounted at a rate that reflects their risk.[4]

Financial economists argue that if benefits are 100 percent guaranteed, the obligation must be discounted using the riskless rate. Their rationale is that the sponsor can only be sure of having enough assets in the plan to pay those guaranteed benefits by investing in riskless assets. As events have unfolded in the wake

Figure 6. *Distribution of discount rates for public plans, FY 2013*



Sources: Various 2013 actuarial valuations and PPD (2001–2013).

of the economic crisis, benefits have proved not to be riskless; the benefits for current workers and retirees have been reduced in several states by cutting cost-of-living adjustments. Nevertheless, core benefits will almost certainly be paid, so liabilities—for reporting purposes—should be discounted by something closer to the risk-free interest rate.[5]

Table 1 shows the value of total liabilities and unfunded liabilities for our sample of 150 plans under different interest rates. As noted, in 2013—calculated under a typical discount rate of 7.7 percent—the aggregate liability was $4.1 trillion, assets were $2.9 trillion, and the unfunded liability was $1.1 trillion. A discount rate of 5 percent raises public sector liabilities to $5.9 trillion and the unfunded liability to $3.0 trillion. In the end, required contributions to fund future benefits will depend on actual investment returns, not the discount rate used to calculate liabilities.

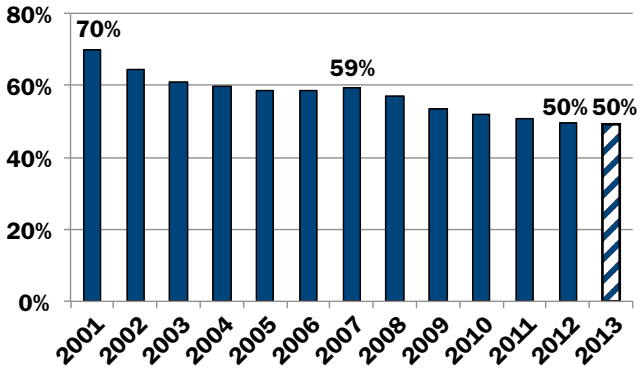
Table 1. *Aggregate liabilities under alternative discount rates, 2013, trillions of dollars*

	Discount rate				
Liability	7.7%	7%	6%	5%	4%
Total	$4.1	$4.6	$5.2	$6.0	$6.8
Unfunded	$1.1	$1.7	$2.3	$3.0	$3.8

Sources: Various actuarial valuations and authors' calculations from PPD (2013).

Recalculating the liabilities for each plan at 5 percent in 2013 produces a funded ratio of 50 percent: $2.9 trillion in actuarial assets (the same value used earlier) compared to $5.9 trillion in liabilities. The 2013 ratio of 7.7 percent liability to 5 percent liability was applied retroactively to derive funded ratios for earlier years (see Figure 7, pg. 6).

Figure 7. *State and local funded ratios with liabilities discounted by riskless rate, FY 2001–2013*



Note: Authors' estimates.

Sources: Various 2013 actuarial valuations and PPD (2001–2013).

Preview of 2014 and Beyond

2014 was always going to be a pivotal year because, under the old GASB accounting standards, the disastrous stock market performance of 2009 rotates out of the smoothing calculations. Now 2014 will be pivotal because plan sponsors will report under GASB's new accounting standards.

The new GASB standards involve two major changes pertaining to the valuation of assets and liabilities used to measure reported funded ratios. First, assets will be reported at current market value rather than being actuarially smoothed. In 2013, market assets surpassed actuarial assets and are projected to continue to outpace actuarial assets in 2014, so the use of market assets should help funded ratios. Second, projected benefit payments will be discounted by a combined rate that reflects the expected return for the portion of liabilities that are projected to be covered by plan assets and the return on high-grade municipal bonds for the portion that are to be covered by other resources.[6] It is unclear the extent to which discount rates will really change for reporting purposes, and GASB standards are not intended for determining funding contributions. GASB's proposed combined rate requires a complicated calculation based on a number of assumptions, including future contributions from the government and from employees. Plan sponsors can easily assert that adequate contributions will be made and, therefore, assets will always be available to cover projected benefits. In this case, the relevant discount rate reverts to the plan's expected long-run rate of return.

Given the uncertainty over changes in discount rates, projections for 2014–2017 are made for three standards: old GASB; new GASB with assets at market; and new GASB with both assets at market and combined-rate discount rate.

Future funded levels (under any of the three standards) depend on four factors: the growth in contributions, the growth in benefits, the growth in liabilities, and the performance of the stock market. Both contributions and benefits rise slowly over time, so their average growth for the period 2014–2017 is assumed to equal their average growth over 2001–2013.[7] Growth in liabilities is assumed to hold steady at 3 percent under GASB's old standards.[8] Under the alternative scenario, in which all plans adopt a combined rate, the liability growth assumptions are also 3 percent for 2014–17.

Public pensions currently hold more than half of their assets in equities and a total of about 70 percent in risky assets. To address uncertainty about the future performance of these assets, projections for the Dow Jones Wilshire 5000 Index are made using three sets of economic assumptions—baseline, optimistic, and pessimistic.[9] The remaining 30 percent of pension assets are assumed to yield a 3.5 percent return. The baseline was designed to yield an overall return on portfolio close to that assumed by most plans.

The projected funded ratios are shown in Table 2 (pg. 7). Under the baseline assumption, without any adjustment to the discount rate, the 2014 reports will show funded ratios higher than 2013, given the increase in stock prices that has already occurred. The 2014 funded ratio using market assets improves the most, because the projected market return for 2014 will exceed that based on smoothed returns for the period 2010–2014. After 2014, funded ratios continue to climb as asset growth under either actuarial or market value continues to exceed assumed liability growth. Looking beyond the projection period, the picture should further improve as liability growth will likely be restrained somewhat by the long-term benefit cutbacks enacted in recent years.[10]

Of course, the funded numbers are much lower if, in accordance with the new GASB standards, many plans adopt a combined discount rate. Such a reduction in discount rates would produce a one-shot increase in liabilities and lower funded ratios thereafter. However, as noted above, sponsors are likely to claim that they will have enough assets to cover their benefits, and therefore only the weakest plans are likely to adopt the new rates.

Table 2. *Projected funded ratios for FY 2014–2017 under GASB's old and new standards*

Scenario and year	GASB old	GASB new	
		Market assets	Market assets/ combined rate
2013	72.0%	75.3%	64.9%
Baseline			
2014	75.2	80.6	69.5
2015	77.4	81.6	70.4
2016	79.4	82.7	71.3
2017	81.2	83.7	72.1
Optimistic			
2014	75.4	81.1	69.9
2015	78.2	83.7	72.1
2016	81.0	86.4	74.5
2017	84.0	89.2	76.9
Pessimistic			
2014	75.0	80.1	69.0
2015	76.7	79.6	68.6
2016	77.8	79.0	68.1
2017	78.6	78.3	67.5

Source: Authors' projections.

Conclusion

The funded status of state and local pensions has been front-page news since the collapse of financial markets in 2008. At the time, it was clear that the funded ratios of public plans would continue to decline as actuaries gradually averaged in the losses. Indeed, the funded status of public plans has remained low as the losses work their way through the averaging process, with the 2013 level the same as 2012.

2014 will be a year of big change. Just as 2009 was about to rotate out of the five-year averaging period to produce a sharp increase in actuarial assets, GASB has required sponsors to replace actuarially smoothed assets with the market value. Funded ratios may also change to the extent that sponsors with significantly underfunded plans will be forced to use a combined rate, which will be lower than the long-run expected return on assets. But our sense is that this effect will be minimal.

Regardless of the measurement standard, a continued healthy stock market will improve the funding picture in 2014. What happens thereafter depends very much on the performance of the stock market and the extent to which plans adjust their discount rates. In 2017, assuming a healthy stock market, plans should be at least 80 percent funded. The ratio will be lower if public plans widely adopt a combined rate to discount their benefit promises.

Endnotes

1 The sample represents about 90 percent of the assets in state-administered plans and 30 percent of those in plans administered at the local level.

2 For those plans without published 2013 actuarial valuations, we estimated the percent change in actuarial assets between 2012 and 2013, calculated according to the plan's own methodology, and applied that change to its published 2012 GASB level of actuarial assets. Liabilities are projected based on the average rate of growth for plans already reporting. The initial estimates of assets and liabilities were then sent to plan administrators and any suggested alterations were incorporated.

3 Another, but less significant, factor slowing asset growth is the negative cash flows that many plans are experiencing as they mature. The most recent financial reports show these negative flows to equal about 3 percent of assets in aggregate.

4 The analysis of choice under uncertainty in economics and finance identifies the discount rate for riskless payoffs with the riskless rate of interest. See Gollier (2001) and Luenberger (1997). This correspondence underlies much of the current theory and practice for the pricing of risky assets and the setting of risk premiums. See Sharpe, Alexander, and Bailey (2003); Bodie, Merton, and Cheeton (2008); and Benninga (2008).

5 Such an approach has been adopted by other public or semi-public plans, such as the Ontario Teachers' Pension Plan (2011) and the quasi-public defined benefit plans in the Netherlands (Ponds and van Riel, 2007). For a more detailed discussion of valuing liabilities for reporting purposes and the implications for funding and investments, see Munnell et al. (2010).

6 In addition, the entry age normal/level percentage of payroll would be the sole allocation method used for reporting purposes (roughly three quarters of plans already use this method).

7 The focus here is on contributions, where growth remains fairly steady, rather than on the percent of ARC paid, which is more variable.

8 Liabilities increased at an average rate of about 7 percent over the period 2001-2009. The annual rate then declined to about 4.8 percent in 2010, 4.2 percent in 2011, and 3.6 percent in 2012. For the 100 or so plans that did report in 2013, liabilities grew by only 3.0 percent.

9 Baseline: Output grows 5.00 percent per year (3.25 percent real, 1.75 percent inflation), the price/earnings (p/e) ratio is 15 at the end of 2017, and the dividend yield remains at 2 percent. Stock prices rise, on average, 5.75 percent annually, producing an average total real return on equity of 7.75 percent. Optimistic: Output grows 6.00 percent per year (3.25 percent real, 2.75 percent inflation), the p/e ratio is 16 at the end of 2017, and the dividend yield averages 1.8 percent over the four years. Stock prices rise, on average, 7.2 percent annually, producing an average real return of 9 percent. Pessimistic: Output grows 4.25 percent per year (2.75 percent real, 1.5 percent inflation), the p/e ratio is 15 at the end of 2017, and the dividend yield averages 2.2 percent. Stock prices rise, on average, 3.30 percent annually, producing an average real return of 5.80 percent.

10 Munnell et al. (2013).

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Appendix

Ratio of Assets to Liabilities for State/Local Plans 2001, 2004, 2007-2012, and 2013 Estimates[a]

Plan name	2001	2004	2007	2008	2009	2010	2011	2012	2013
Alabama ERS	100.2	89.7	79.0	75.7	72.2	68.2	65.8	65.7	69.5*
Alabama Teachers	101.4	89.6	79.5	77.6	74.7	71.1	67.5	66.5	70.4*
Alameda County Employees	105.8	82.1	89.2	83.9	81.2	77.5	76.6	73.9	75.9
Alaska PERS	100.9	70.2	77.8	78.8	63.0	62.4	61.9	57.1	55.4*
Alaska Teachers	95.0	62.8	68.2	70.2	57.0	54.3	54.0	49.9	47.9*
Arizona Public Safety Personnel	126.9	92.4	66.4	68.8	70.0	67.7	63.7	60.2	58.7
Arizona SRS	115.1	92.5	83.3	82.1	79.0	76.4	75.5	75.3	75.4
Arizona State Corrections Officers	140.0	104.8	84.6	90.3	86.4	83.8	76.6	70.7	70.9*
Arkansas PERS	105.6	88.7	89.1	89.7	78.0	74.1	70.7	68.9	74.3
Arkansas Teachers	95.4	83.8	85.3	84.9	75.7	73.8	71.8	71.2	73.3
Austin ERS	96.4	80.8	78.3	65.9	71.8	69.6	65.8	63.9	70.4
Boston Retirement Board	70.3	63.3	67.6	59.3	60.2	63.1	61.4	61.9	61.1*
California PERF	111.9	87.3	87.2	86.9	83.3	83.4	82.6	83.1	69.6**
California Teachers	98.0	82.5	88.8	87.3	78.2	71.5	69.3	67.2	66.9
Chicago Municipal Employees	93.3	72.0	69.1	64.2	58.1	50.8	45.2	37.6	37.0
Chicago Police	70.5	55.9	51.5	48.3	44.5	40.4	36.2	31.3	30.9*
Chicago Teachers	100.0	85.8	80.1	79.4	73.3	66.9	59.7	53.9	53.1*
Colorado Municipal	104.3	77.2	81.2	76.4	76.2	73.0	69.3	74.5	81.1*
Colorado School	98.2	70.1	75.5	70.1	69.2	64.8	60.2	62.1	67.6*
Colorado State	98.2	70.1	73.3	67.9	67.0	62.8	57.7	59.2	64.3*
Connecticut Municipal Employees	109.3	102.9	103.7	103.3	88.9	88.4	88.3	85.0	87.5
Connecticut SERS	N/A	54.5	53.6	51.9	N/A	44.4	47.9	42.3	41.2
Connecticut Teachers	N/A	65.3	N/A	70.0	N/A	61.4	N/A	55.2	54.5*
Contra Costa County Employees	87.6	82.0	89.9	88.4	83.8	80.3	78.5	70.6	73.1*
Cook County Employees	88.9	70.9	85.9	79.6	69.2	66.4	62.5	58.4	61.4*
Dallas Police & Fire	84.5	80.8	89.4	78.4	81.9	79.5	74.0	78.1	78.4*
DC Police & Fire	N/A	N/A	101.0	99.8	100.7	108.0	108.6	110.1	110.1
DC Teachers	N/A	N/A	111.6	108.2	110.8	118.3	101.9	94.4	90.1
Delaware State Employees	112.4	103.0	103.7	103.1	98.8	96.0	94.0	91.5	91.1
Denver Employees	99.5	99.1	98.2	91.8	88.4	85.0	81.6	76.4	77.2*
Denver Schools	96.5	88.2	87.7	84.3	88.3	88.9	81.5	84.8	92.2*
Duluth Teachers	107.6	91.8	86.8	82.1	76.5	81.7	73.2	63.4	54.0
Fairfax County Schools	103.0	84.9	88.0	76.9	75.6	76.4	75.6	75.4	77.7*
Florida RS[B]	117.9	112.1	105.6	105.3	87.9	88.0	86.9	86.4	85.4
Georgia ERS	101.7	97.6	93.0	89.4	85.7	80.1	76.0	73.1	71.4
Georgia Teachers	103.9	100.9	94.7	91.9	89.9	85.7	84.0	82.3	81.1**
Hawaii ERS	90.6	71.7	67.5	68.8	64.6	61.4	59.4	59.2	60.0
Houston Firefighters	112.9	88.2	91.1	95.6	95.4	93.4	90.6	87.0	87.0*
Idaho PERS	96.2	91.0	104.9	92.8	73.7	78.6	89.9	84.4	85.0
Illinois Municipal	106.4	94.3	96.1	84.3	83.2	83.3	83.0	84.3	87.6
Illinois SERS	65.8	54.2	54.2	46.1	43.5	37.4	35.5	34.7	34.2
Illinois Teachers[c]	59.5	61.9	63.8	56.0	52.1	48.4	46.5	42.1	40.6

Plan name	2001	2004	2007	2008	2009	2010	2011	2012	2013
Illinois Universities	72.1	66.0	68.4	58.5	54.3	46.4	44.3	42.1	41.5
Indiana PERF	105.0	100.1	98.2	97.5	93.1	85.2	80.5	76.6	80.2
Indiana Teachers[D]	43.0	44.8	45.1	48.2	41.9	44.3	43.8	42.7	45.7
Iowa Municipal Fire & Police	N/A	N/A	87.2	89.7	85.6	81.1	78.2	73.7	73.9
Iowa PERS	97.2	88.6	90.2	89.1	81.2	81.4	79.9	79.9	81.0
Kansas PERS	84.8	69.8	70.8	58.8	63.7	62.2	59.2	56.4	60.4*
Kentucky County Employees	141.0	101.0	80.1	77.1	70.6	65.5	62.9	60.0	59.5
Kentucky ERS	125.8	85.8	58.4	54.2	46.7	40.3	35.6	29.7	25.8
Kentucky Teachers	90.8	80.9	71.9	68.2	63.6	61.0	57.4	54.5	51.9
Kern County Employees	93.6	86.1	N/A	72.3	66.1	62.7	60.8	60.5	61.1
Los Angeles City Employees	108.1	82.5	81.7	84.4	79.5	75.9	72.4	69.0	68.7
Los Angeles County ERS	100.0	82.8	93.8	94.5	88.9	83.3	80.6	76.1	75.0
Los Angeles Fire & Police	118.9	103.0	99.2	99.1	96.2	91.6	86.3	83.7	83.1
Los Angeles Water & Power Employees	109.9	97.3	91.9	95.1	90.0	81.5	80.3	78.1	78.8
Louisiana Municipal Police Employees	101.1	72.9	89.1	86.9	65.2	59.9	58.1	59.8	64.2
Louisiana School Employees	103.0	75.8	80.0	76.6	65.5	61.0	59.9	61.6	62.1
Louisiana SERS	74.2	59.6	67.2	67.6	60.8	57.7	57.6	55.9	60.2
Louisiana State Parochial Employees	N/A	93.5	96.9	96.0	96.9	97.2	97.6	99.0	109.5*
Louisiana Teachers	78.4	63.1	71.3	70.2	59.1	54.4	55.1	55.4	56.4
Maine Local Employees	108.2	112.1	113.6	112.7	102.5	96.3	93.5	88.8	88.4
Maine State & Teacher	73.1	68.5	74.1	74.1	67.7	66.0	77.6	77.0	77.7
Maryland PERS	102.2	91.2	79.5	77.2	63.9	62.8	62.8	62.5	63.3
Maryland Teachers	95.3	92.8	81.1	79.6	66.1	65.4	66.3	65.8	67.1
Massachusetts SERS	94.0	82.8	89.4	71.6	76.5	81.0	73.8	69.1	70.3**
Massachusetts Teachers	76.2	67.6	73.9	58.2	63.0	66.3	60.7	55.7	56.6**
Michigan Municipal	84.3	76.7	77.3	75.1	75.5	74.5	72.6	71.4	76.4*
Michigan Public Schools	96.5	83.7	88.7	83.6	78.9	71.1	64.7	61.3	59.6**
Michigan SERS	107.6	84.5	86.2	82.8	78.0	72.6	65.5	60.3	60.3
Milwaukee City Employees	137.2	116.7	131.2	99.1	112.8	104.4	96.0	90.8	99.8*
Minneapolis ERF	93.3	92.1	85.9	77.0	56.7	65.6	73.5	69.1	74.4
Minnesota PERA – General Employees	87.0	76.7	73.3	73.6	70.0	76.4	75.2	73.5	72.8
Minnesota PERA – Police & Fire	120.5	101.2	91.7	88.4	83.2	87.0	82.9	78.3	81.2
Minnesota State Employees	112.1	100.1	92.5	90.2	85.9	87.3	86.3	82.7	82.0
Minnesota Teachers	105.8	100.0	87.5	82.0	77.4	78.5	77.3	73.0	71.6
Mississippi PERS	87.5	74.9	73.7	72.9	67.3	64.2	62.2	58.0	57.7
Missouri DOT & Highway Patrol	66.1	53.4	58.2	59.1	47.3	42.2	43.3	46.3	46.2
Missouri Local Employees	104.0	95.9	96.1	97.5	80.0	81.0	81.6	83.5	86.5
Missouri PEERS	103.1	82.7	83.2	82.5	80.7	79.1	85.3	82.5	81.6
Missouri State Employees	97.0	84.6	86.8	85.9	83.0	80.4	79.2	73.2	72.7
Missouri Teachers	99.4	82.0	83.5	83.4	79.9	77.7	85.5	81.5	80.1
Montana PERS	N/A	86.7	91.0	90.2	83.5	74.2	70.2	67.4	80.2
Montana Teachers	N/A	77.4	80.4	80.7	67.4	65.4	61.5	59.2	66.8
Nebraska Schools	87.2	87.2	90.5	90.6	86.6	82.4	80.4	76.6	77.1
Nevada Police & Fire	78.9	71.7	71.1	70.8	68.9	67.8	68.4	70.1	71.1
Nevada Regular Employees	85.5	80.5	78.8	77.7	73.4	71.2	70.6	71.2	68.9
New Hampshire Retirement System[E]	85.0	71.1	67.0	67.8	58.3	58.5	57.4	56.1	56.7

Plan name	2001	2004	2007	2008	2009	2010	2011	2012	2013
New Jersey PERS	117.1	91.3	76.0	73.1	64.9	69.5	66.8	63.6	62.1
New Jersey Police & Fire	100.8	84.0	77.6	74.3	70.8	77.1	75.0	74.3	73.1
New Jersey Teachers	108.0	85.6	74.7	70.8	63.8	67.1	62.8	59.5	57.1
New Mexico PERF	105.4	93.1	92.8	93.3	84.2	78.5	70.5	65.3	72.9
New Mexico Teachers	91.9	75.4	70.5	71.5	67.5	65.7	63.0	60.7	60.1
New York City ERS	117.4	94.5	79.0	79.7	78.6	64.2	65.0	66.3	66.0*
New York City Fire Dept Article 1B	84.7	63.9	55.1	56.4	56.8	48.2	50.3	52.3	52.7
New York City Police Pension Fund Article 2	104.5	80.1	68.9	70.8	71.3	60.1	61.1	63.7	64.9*
New York City Teachers	98.0	81.1	69.6	65.2	64.1	58.9	58.2	57.6	55.6*
New York State & Local ERS	N/A	N/A	105.8	107.3	101.0	93.9	90.2	87.2	88.5**
New York State & Local Police & Fire	N/A	N/A	106.5	108.0	103.8	96.7	91.9	87.9	89.5**
New York State Teachers	N/A	N/A	104.2	106.6	103.2	100.3	96.7	89.8	87.5**
North Carolina Local Government Employees	99.3	99.3	99.5	99.6	99.5	99.6	99.8	99.8	99.8**
North Carolina Teachers & State Employees	111.6	108.1	104.7	99.3	95.9	95.4	94.0	94.2	94.8**
North Dakota PERS	110.6	94.0	93.3	92.6	85.1	73.4	70.5	65.1	62.0
North Dakota Teachers	96.4	80.3	79.2	81.9	77.7	69.8	66.3	60.9	58.8
Ohio PERS	102.6	87.6	96.3	75.3	75.3	79.1	77.4	80.9	83.8*
Ohio Police & Fire	92.7	80.9	81.7	65.1	72.8	69.4	63.1	64.2	63.1*
Ohio School Employees	95.0	78.1	80.8	82.0	68.4	72.6	65.2	62.8	65.3
Ohio Teachers	91.2	74.8	82.2	79.1	60.0	59.1	58.8	56.0	66.3
Oklahoma PERS	82.6	76.1	72.6	73.0	66.8	66.0	80.7	80.2	81.6
Oklahoma Police	N/A	81.1	79.9	82.2	76.2	74.9	93.0	90.2	89.3
Oklahoma Teachers	51.4	47.3	52.6	50.5	49.8	47.9	56.7	54.8	57.2
Orange County Employees	94.7	70.9	74.1	71.3	68.8	69.8	67.0	62.5	68.0*
Oregon PERS	106.7	96.2	112.2	80.2	85.8	86.9	82.0	90.7	96.4**
Pennsylvania Municipal Employees	N/A	105.6	105.9	106.1	103.8	102.4	103.8	104.5	104.9*
Pennsylvania School Employees	114.4	91.2	85.8	86.0	79.2	75.1	69.1	66.3	63.8
Pennsylvania State ERS	116.3	96.1	97.1	89.0	84.4	75.2	65.3	58.8	62.4*
Philadelphia Municipal Employees	77.5	59.8	53.9	55.0	45.0	45.4	47.3	45.8	47.4
Phoenix ERS	102.5	84.2	83.9	79.1	75.3	69.3	66.6	62.2	64.2
Rhode Island ERS	77.6	59.4	56.2	61.5	58.5	48.4	58.8	57.8	57.3
Rhode Island Municipal Employees	118.1	93.2	90.3	92.8	88.3	73.6	84.3	82.5	82.1
Sacramento County Employees	107.7	93.3	93.4	93.2	86.0	87.7	87.0	83.3	82.8
San Diego City Employees	89.9	65.8	78.8	78.1	66.5	67.1	68.5	68.6	70.4
San Diego County Employees	106.8	81.1	89.7	94.4	91.5	84.3	81.5	78.7	79.0
San Francisco City & County Employees	129.0	103.8	110.2	103.8	97.0	91.1	87.7	82.6	80.6
South Carolina Police[F]	94.6	87.7	84.7	77.9	76.3	74.5	72.8	71.1	69.2
South Carolina RS[F]	87.4	80.3	69.7	69.3	67.8	65.5	67.4	64.7	62.5
South Dakota PERS	96.4	97.7	97.1	97.2	91.8	96.3	96.4	92.6	100.0
St. Louis School Employees	80.5	86.3	87.6	87.6	88.4	88.6	84.9	84.3	80.5*
St. Paul Teachers	81.9	71.8	73.0	75.1	72.2	68.0	70.0	62.0	60.4
Tennessee Political Subdivisions	90.4	N/A	89.5	N/A	86.3	N/A	89.1	N/A	95.0
Tennessee State & Teachers	99.6	N/A	96.2	N/A	90.6	N/A	92.1	N/A	93.3
Texas County & District Employees	89.3	91.0	94.3	88.6	89.8	89.4	88.8	88.2	89.4**
Texas ERS	104.9	97.3	95.6	92.6	89.8	85.4	84.5	82.6	79.6
Texas LECOS	131.6	109.3	98.0	92.0	89.7	86.3	86.4	82.0	73.3

Plan name	2001	2004	2007	2008	2009	2010	2011	2012	2013
Texas Municipal	85.0	82.8	73.7	74.4	75.8	82.9	85.1	87.2	89.1**
Texas Teachers	102.5	91.8	89.2	90.5	83.1	82.9	82.7	81.9	80.8
University of California	147.7	117.9	104.8	103.0	94.8	86.7	82.5	78.7	75.9
Utah Noncontributory	102.8	92.3	95.1	86.5	85.7	83.8	80.1	77.4	79.4*
Utah Public Safety	100.8	88.3	90.7	81.6	80.6	77.1	75.4	73.0	74.8*
Vermont State Employees	93.0	97.6	100.8	94.1	78.9	81.2	79.6	77.7	76.7
Vermont Teachers	89.0	90.2	84.9	80.9	65.4	66.5	63.8	61.6	60.5
Virginia Retirement System[G]	107.3	90.3	82.3	84.0	80.2	72.4	69.9	65.8	65.9
Washington LEOFF Plan 2	154.4	116.9	128.8	133.5	127.9	119.0	118.7	119.0	117.7**
Washington PERS 2/3	179.1	134.4	119.9	118.7	116.3	112.7	111.6	111.3	107.8**
Washington School Employees Plan 2/3	197.0	136.9	126.1	120.8	115.7	112.5	110.2	109.9	106.2**
Washington Teachers Plan 2/3	197.4	152.6	130.4	125.4	118.2	115.5	113.4	114.1	110.3**
West Virginia PERS	84.4	80.0	97.0	84.2	79.7	74.6	78.4	77.6	79.7
West Virginia Teachers	21.0	22.2	51.3	50.0	41.3	46.5	53.7	53.0	57.9
Wisconsin Retirement System	96.5	99.4	99.6	99.7	99.8	99.8	99.9	99.9	104.2*
Wyoming Public Employees	103.2	96.0	94.0	78.6	87.5	84.6	81.9	78.6	91.0*

Note: Municipal agency plans such as Michigan Municipal and Illinois Municipal do not have a single funded ratio, as they are made up of individual retirement systems that each maintain their own liabilities and funded ratio. For these types of plans, the funded ratios reported above represent an aggregate of assets and liabilities of the individual systems.

* Numbers are authors' estimates.

** Received from plan administrator.

[A] Funded ratios may vary across plans because of the discount rate used to value liabilities. While the average discount rate is 7.7 percent, the rates range from 8.5 percent for Connecticut Teachers and 8.25 percent for Ohio Police & Fire to 7.0 percent in New York City, 6.75 percent in Indiana, and 5.5 percent for Pennsylvania Municipal Retirement System.

[B] The reported funded ratios for Florida in 2009 and 2010 reflect pension legislation passed just after the valuation for each year was performed. Funded ratios for 2009 and 2010—as originally determined—were 87.1 and 86.6, respectively.

[C] Through 2008, the Illinois Teachers plan funded ratio was based on the market value of assets. Beginning in 2009, the funded ratio was calculated using five-year smoothed actuarial assets.

[D] The reported funded ratios of the Indiana Teachers plan are made up of two separately funded accounts: the pre-1996 account and the 1996 account. The pre-1996 account is for employees hired prior to 1996 and is funded under a pay-go schedule. The 1996 account is for employees hired afterwards and is pre-funded. The funded ratio for the pre-funded account is currently 93.8 percent. As expected, the pay-go account has a much lower funded ratio of 31.8 percent.

[E] Prior to 2007, the New Hampshire Retirement System used the Open Group Aggregate method to calculate its funded ratio. Beginning in 2007, the entry age normal method was used.

[F] The 2011 funded ratios for South Carolina Police and RS are calculated based on the plan design features and actuarial methods in place prior to the passing of Act 278.

[G] The funded ratios presented represent the VRS plan only for the state employees, teachers and political subdivisions. They do not reflect the information in the other plans—SPORS, JRS and VaLORS.

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Pension penalties drop, but some schools still owe over $100,000

Two of the largest suburban school districts paid six-figure penalties for giving pension-boosting pay hikes for retiring educators in the 2012-13 school year, eight years after a Illinois state law was adopted to discourage schools from doing so.

But another suburban school district, Schaumburg Township Elementary District 54, paid about $25,000 in penalties for the 2012-13 school year -- far less than the year before, when it paid nearly half a million dollars, according to records from the state's Teachers' Retirement System.

The state limits annual raises for end-of-career teachers and administrators to 6 percent. School boards are free to pay more but must reimburse the retirement system for extra pension costs that arise from the higher pay. The bigger an employee's salary is in the last years of his or her career, the bigger the annual pension will be.

Since the 6 percent limit went into effect in 2005, many school districts have taken steps to curtail what they owe in penalties, but some are still hit hard, according to records.

The highest payments in the suburbs were:

• Elgin Area Unit District U-46: $135,392.59

• Community Unit District 300: $103,869.83

• Community School District 59: $86,882.42

• Aurora East Unit School District 131: $86.851.73

• Wheeling Township District 21: $71,374.33

However, that's an overall reduction from the previous year, when half a dozen suburban school districts each paid more than $100,000 in penalties.

District 54 Assistant Superintendent Ric King said it's nice to pay less, but said the payments are ultimately "out of our control."

He gave the example of an employee leaving in December who was owed a lump sum for pay that otherwise would have been spread out over the next year's summer break. If that boosts the annual pay raise over 6 percent, the school district must pay the penalty.

District 54 was charged more than $1 million in penalties over the previous three years, some of it stemming from raises as high as 22 percent given over several consecutive years to a handful of top administrators.

Last year, the Illinois Supreme Court declined to hear a lawsuit from District 54 challenging $586,000 in penalties. The district had argued unsuccessfully that agreements to give the raises were in place before the 2005 law.

The most recent retirement system records show Elgin Area Unit District 46, one of the biggest school districts in the state, paid the most in the suburbs last year. Spokesman Pat Mogge said the school district is trying to cut out the penalty payments to the retirement system.

Mogge said new union contracts have provisions limiting pay raises to 6 percent or less.

"We should be receiving less penalty invoices moving forward," Mogge said.

Officials from District 300 did not return phone calls seeking comment.

Pensions will be on the minds of Illinois lawmakers as they head down the homestretch of this year's legislative session, where they face a pension fund debt of at least $100 billion.

State Rep. Elaine Nekritz, a Northbrook Democrat, couldn't say for sure what caused the decrease in penalty charges. She thinks after eight years under the law requiring penalties, more school districts are writing contracts that eliminate big pension-boosting raises for those about to retire.

"I can guess that it might be because existing collective bargaining agreements are expiring and districts are being more watchful over those kinds of end-of-career bumps," she said.

Fallin signs pension reform for new state employees

By BARBARA HOBEROCK World Capitol Bureau | May 30, 2014

OKLAHOMA CITY – Gov. Mary Fallin on Friday signed a bill that switches new state employees to a defined-contribution retirement system from a defined-benefit system.

House bill 2630 would move those hired after Nov. 1, 2015, and in the Oklahoma Public Employees Retirement System to a 401(k)-style program from a traditional pension system.

Current state employees, teachers and those designated as “hazardous duty” workers will remain under the existing plan. Hazardous duty employees include firefighters and law enforcement.

The measure would apply to elected and appointed officials as well.

“This bill allows flexibility for future state employees to take the money they have accrued if they change careers,” Fallin said. “That helps us to make state employment more attractive and aids in recruitment.”

The measure will also help reduce the $11 billion in unfunded liabilities in the state’s pension systems, Fallin said.

“The system as it stands today is not financially sound or sustainable,” Fallin said. “Moving future hires to a 401(k)-style system helps to ensure we can pay our current retirees and employees the benefits they have already earned.”

The measure requires new OPERS employees to contribute a minimum of 3 percent to their retirement. The stat will match the contributions up to 7 percent.

Rep. Randy McDaniel, R-Edmond, and Sen. Rick Brinkley, R-Owasso, are the authors of the measure.

“The costs are predictable and affordable,” McDaniel said. “Since the benefits are required to be completely paid for up front, new unfunded liabilities are not created.”

The measure is expected to save $3.8 billion over 30 years, according to an actuarial study by L. Gregg Johnson of Pension Applications.

“Oklahoma is one of only three states that offer a defined contribution system for state employees,” Brinkley said. “It clearly helps us begin to reduce the $11 billion unfunded liability we have with our pensions and gives this new generation of employees a modern retirement system that meets their needs.”

Earlier this week, House Minority Leader Scott Inman, D-Del City, called the legislation the worst measure passed in the most recent session.

He said the measure will provide less of an incentive for people to work for the state and will result in those who work for the state retiring into poverty or near poverty.

Shared-risk plan concept is gaining momentum

By HAZEL BRADFORD | June 9, 2014

Officials in nearly every state are considering implementing shared-risk public pension plan designs that help mitigate funded status volatility and investment and longevity risks.

Such a move is seen as an alternative to drastic benefit freezes or cuts legislatures have imposed on struggling public plans since the financial crisis, and as a way to defuse criticism of public defined benefit plans in general.

While public plan participants have long been required to contribute to their defined benefit plans, in most cases, employers have assumed all or most of the investment risk.

Sharing that risk “was sort of an abstract concept until the recession,” said David Kausch, chief actuary with actuarial firm Gabriel, Roeder, Smith & Co. in Southfield, Mich., which specializes in state and local government plans. Now, he says, “there's definitely a big movement to share more risk. Employers are not able or willing to pick up all the costs anymore.”

Shared-risk plan design allows sponsors to change employee contributions, benefits, or some combination of the two, when the plan's financial condition is affected by market downturns, longevity changes or inflation.

In the private sector, particularly with multiple employers, interest in the variable benefit, or adjustable pension plan, idea is growing among sponsors like Consumers Union and the $3.7

billion Sheet Metal Workers' National Pension Fund, Fairfax, Va., which in 2013 adopted an approach that ties benefits to the pension fund's returns. Other variations promoted by actuarial firms, particularly for struggling multiemployer plans, call for different accrual and benefit formulas, but in general allow for sharing of investment risk through benefit adjustments.

In the public arena, “sponsors are moving away from pure defined benefit to more employee risk for contributions or benefits,” said Keith Brainard, Georgetown, Texas-based research director for the National Association of State Retirement Administrators.

“It's being done or looked at in virtually every state,” said Dana Bilyeu, NASRA's Portland, Ore. -based executive director.

The poster child in the U.S. for a shared-risk approach is the $95.4 billion Wisconsin Retirement System, Madison, which was designed from the start in 1982 to adjust employee contribution rates and reduce or eliminate retirees' annuity increases as needed. The system, one of the best-funded in the country, is 99.9% funded as of Dec. 31, 2013, according to spokesman Mark Lamkins at a time when most large public plans are below the generally accepted level of 80%. The first annuity increases in five years came this spring, following $4 billion in cuts since 2008.

Moving to a shared-risk approach also takes politics out of the equation, with officials knowing beforehand what funding levels dictate which actions.

“You don't want to overreact in a politically sensitive environment,” said Mr. Kausch of Gabriel, Roeder. He said he thinks shared risk can go a long way to preserving DB plans, but he cautioned that such designs can't help plans with severe funding problems.

An upcoming issue brief from NASRA will examine both formal and de facto risk-sharing approaches taken by public pension systems.

Rollout in Canada

The shared-risk idea has found footing in the Canadian province of New Brunswick, which is set to roll out a new plan design for public and private pension plans later this year that could be a catalyst for other governments throughout Canada.

That model splits benefits into two tiers, with base benefits that are constant and ancillary benefits that can be adjusted up or down, if funding levels or investment returns change. The model also dictates a strict risk management approach that requires annual stress testing and asset-liability modeling. The chief architect is Paul McCrossan, an actuary who had been president of the Canadian Institute of Actuaries and the International Actuarial Association and a former member of parliament who was tapped by the Canadian government in 2010 to serve on a three-member task force looking at ways to bolster private-sector pensions in the recession-battered province.

In May, Canadian government officials announced they would expand the New Brunswick model to federal crown corporations and private-sector pension plans that are federally regulated, such as defense, transportation and banking, which Mr. McCrossan estimates will cover about 8% of the country's population.

Each province will have to decide whether to implement the New Brunswick model for other workers.

So far, officials in eight of Canada's 10 provinces have announced that they are studying the concept, according to Mr. McCrossan. “We've had so much interest that I think it's going to cover a very large percentage of the population.”

Ron Olsen, senior vice president and actuary for The Segal Group in Toronto, particularly likes that it required asset-liability modeling, but he sees a potential “Achilles heel” in the ability of plan sponsors to unilaterally convert accrued benefits into target benefits, which could invite legal challenges. So far, said Mr. McCrossan, unions are on board. “Employee representatives are saying that you have to take a risk of some benefit reduction, because in all likelihood you are going to have better security.”

Mr. Olsen said his firm has “been explaining it to legislators and (private-sector) clients. The basic concept of decoupling guarantees from risk pooling is a crucial development in pensions. It really does change the game.”

Model for U.S. plans

The New Brunswick experience is being watched closely, particularly as a model for U.S. public sector plans, where it has the potential to relieve some stress on employers. Several plans in the U.S. have already seen relief from plan design changes that shifts more risk to participants.

For the $24.4 billion Nevada Public Employees' Retirement System, Carson City; the $26.9 billion Iowa Public Employees' Retirement System, Des Moines; and the $31.5 billion Arizona State Retirement System, Phoenix, risk sharing means employee contribution rates can be adjusted up or down, depending on the plan's funded status and actuarial condition, which includes both market and demographic risk.

In Iowa, all participants share the funding risk since legislators raised contribution rates to the current fiscal year's 14.88%, split 60/40 between employer and employee. The rate was 9.45% for nearly 30 years, but beginning in 2008, it increased gradually over four years, then took a bigger jump with 2010 reforms that allowed the rate going forward to be adjusted up or down each year by as much as one percentage point.

Active members, now with a longer vesting period and higher retirement factors, also share the additional risk of having future benefits reduced if the legislature determines a decline in the actuarial condition.

Both rate and benefit changes that started in 2012 were needed after the recession to avoid a further funding slide, said IPERS CEO Donna Mueller. “At that point it needed a double shot in the arm. We evolved into more of a shared risk hybrid model.”

The contribution rate changes, which cannot be undone unless funding hits 95%, will better prepare the system for future shocks by building up reserves. “I think we really brought some stability to the underlying benefit and provided some security to our members,” said Ms.

Mueller, who credits participants' support for the change. For the first time since 2001, IPERS will pay its full annual required contribution.

In Pennsylvania, people hired after June 2011 have a sliding scale of contribution rates that depend on investment performance. In 2015, when three years of investment results are measured, participants in the $50.5 billion Pennsylvania Public School Employees' Retirement System and the $25.7 billion Pennsylvania State Employees' Retirement System, both of Harrisburg, could see their contribution rates drop or rise.

Detroit moves to hybrid pension plan for city employees

By Christine Ferretti, The Detroit News

City employees will see deductions in their paychecks beginning next month as Detroit moves to implement a new hybrid pension plan, the emergency manager's office said Wednesday.

The new pension formulas will go into effect July 1 for all active and new employees under the General Retirement System and Police and Fire Retirement System. The move is designed to strengthen the two pension funds while maintaining a defined benefit retirement program, Kevyn Orr said in a statement.

As part of the pension changes, which were negotiated with the Official Committee for Retirees of the City of Detroit and public employee unions, current employees who participate in the general pension system will contribute 4 percent of their weekly pre-tax base salary, and police and fire employees will contribute 6 percent toward the cost of benefits payable under their respective hybrid pension plans. Police and fire members hired after June 30 will contribute 8 percent, the city said.

In addition, the city will contribute a match amount to the respective new funds for each employee who participates. Deductions will be seen in employee paychecks beginning July 14.

Some employees whose individual bargaining units have ratified new collective bargaining agreements could see their pension deductions offset by salary increases intended to incrementally return employees to 2010 pay levels over the next four years, Orr added.

"The city and its labor partners have come up with what we think is the best option to strengthen employee pensions so we can continue to meet future obligations in a financially responsible and sustainable manner," Orr said in a statement. "This new pension plan is the result of months of intense negotiation between the city, its unions and its retirees."

"The city's intention all along was to create a sustainable retirement plan for its employees that is fiscally sound and continues to meet their needs," he added.

Along with the establishment of the new pension plan formulas, benefit accruals under each fund's current benefit formulas will be frozen on June 30 and closed to new employees. All current and future employees will participate in the new hybrid plans beginning July 1.

The city will hold a public hearing at 10 a.m. Tuesday in the 13th floor auditorium at City Hall regarding the changes.

Active city employees who participate in the current plans will receive the benefits they have earned through June 30, plus an additional benefit under the new hybrid plan formula, as long as they satisfy vesting requirements, officials said.

Employees who are vested in their benefits under frozen general or police and fire fund plans as of June 30, 2014, or who work with the city long enough to become vested in those benefits in the future, will receive their accrued benefits earned through June 30, when they would have been eligible to receive those benefits if they had not been frozFrustrated Detroit workers question Orr's new pension plan

Governor Brown Signs Legislation to Stabilize Teachers' Retirement System

24 June 2014; Written by IVN

Sacramento, California - Taking action to reduce California's long-term fiscal liabilities, Governor Edmund G. Brown Jr. today signed AB 1469, which fully funds - over a period of years - the teachers' retirement system through annual contributions of school districts, teachers and state government.

"This bill will ensure a decent retirement for hundreds of thousands of teachers, both now and for decades to come," said Governor Brown.

Before this bill, the California State Teachers' Retirement System (CalSTRS) was only 67 percent funded and would have run out of money in 33 years.

Under the legislation, authored by Assemblymember Rob Bonta (D-Alameda), the first year's contributions from teachers, schools and the state total approximately $276 million, growing in subsequent years to more than $5 billion annually. This is projected to eliminate the unfunded liability in the system by 2046.

"Our dedicated teachers work tirelessly to prepare our kids for college and career, and they deserve stability in their pension system," said Senate President pro Tem Darrell Steinberg. "This shared responsibility between the state, teachers and school districts is a necessary step towards assuring the fund's integrity, and will lift a huge burden from the state's long term financial responsibility."

"In January, Assembly Democrats made clear that kicking the CalSTRS underfunding can down the road had to stop, and that a comprehensive, solution needed to be approved this year," said Assembly Speaker Toni Atkins. "With today's signature by the Governor, CalSTRS escapes the downward spiral to insolvency and is now on a solid path to full funding. This shared solution, with the state, school districts, and teachers all contributing, provides greater retirement security to our dedicated teachers and more budget certainty to the state and our school districts."

“As Chair of the Committee on Public Employees, Retirement and Social Security, I was proud to engage in a comprehensive effort with both houses of the Legislature and the Governor to address the CalSTRS' $74 billion shortfall,” said Assemblymember Bonta. “AB 1469 puts CalSTRS on a course to fulfill the commitments the State has made to California’s educators for the invaluable service they provide to our students. Enacting this plan would not have been possible without the supportive participation of the leadership of both houses and the progressive vision of Governor Brown.”

“Recognition of CalSTRS’ financial stability as a priority demonstrates the Governor’s leadership and commitment to a sustainable retirement system for California’s educators,” said Harry Keiley, Chair of the Teachers’ Retirement Board. “This historic legislation allows CalSTRS to embrace its future with confidence and optimism knowing that a sound funding plan is firmly in place.”

The bill was included in the 2014-15 state budget, which the Governor signed in San Diego last week. The budget directs $1.6 billion into the state Rainy Day Fund – the first deposit into the fund since 2007 – and reduces the Wall of Debt by more than $10 billion. Under the budget plan, the Wall of Debt would be completely eliminated by 2017-18.

The bill follows the Governor’s call in February for the California Public Employees’ Retirement System (CalPERS) to begin accounting for demographic changes for state employees immediately, with the increased costs fully phased in within three years – instead of pushing the costs off into the future. The CalPERS board adopted the changes sought by the Governor.

In 2012, the Governor signed sweeping bipartisan pension reform legislation that saves billions of taxpayer dollars by capping benefits, increasing the retirement age, stopping abusive practices and requiring public employees to pay a larger share of their pension costs.

When Governor Brown took office, the state faced a massive $26.6 billion budget deficit and estimated annual shortfalls of roughly $20 billion. These deficits, built up over a decade, have now been eliminated by a combination of budget cuts, temporary taxes approved by voters and the recovering economy.

Teachers Retirement System cuts estimated return rate for pension asset investments

By Doug Finke, State Capitol Bureau, June 24. 2014

Illinois’ Teachers Retirement System has once again cut the rate of return it expects to receive from investing pension assets.

The TRS board of trustees Tuesday cut the estimated rate of return on TRS investments from 8 percent to 7.5 percent.

The board took the action after reviewing its asset-liability model and market assumptions.

“The assumed rate of return greatly influences the financial future of TRS,” TRS executive director Dick Ingram said in a statement. “Reducing the rate from 8 percent to 7.5 percent is a prudent move that balanced expected future reality with the needs of TRS members.”

State retirement systems such as TRS get their money from employer (state) contributions, employee contributions and investment income.

By reducing the rate of return expected from investments, the amount that must be contributed by the state will increase, said TRS spokesman Dave Urbanek. Just how much hasn’t been determined.

TRS has already established that the state contribution for the downstate teacher pension system will be $3.4 billion in the fiscal year that starts July 1. The amount that will be needed for the following fiscal year — and which will reflect the lower investment return — will not be set until this fall.

However, had the lower investment rate already been in effect for the upcoming fiscal year, state contributions for TRS would have been $500 million higher, Urbanek said.

State lawmakers approved a pension reform package intended to cut state pension costs. However, those changes are being challenged in court, so neither the state nor the pension systems can use projected cost savings from the reforms.

Reducing the estimated rate of return brings TRS more in line with other major state and municipal pension systems. The National Association of State Retirement Administrators found 37 of 126 systems set a rate of return of 7 percent to 7.5 percent. Another 45 had a rate of 8 percent. The average return of those systems was 7.72 percent.

Retirement bill, meant to offset costs, will actually increase unfunded liability, actuaries say

By PAT FORGEY

JUNEAU -- A state retirement bill signed and praised by Gov. Sean Parnell on Monday will increase the state's unfunded liability and increase costs years into the future, actuaries told the Alaska Retirement Management Board this week.

"The first year, you're not even paying interest on the unfunded liability, and the unfunded liability grows," said David Slishinsky, an actuary with Buck Consulting, the board's main actuarial consultant.

That's because legislators changed the way required annual payments for the unfunded liability are calculated, reducing their costs for several years, and shifting much of the cost 20 to 30 years down the road. The liability now won't be fully paid off until 2039, Slishinsky said.

"It will eventually catch up," he said. "We're seeing an increase in unfunded liability for eight years, assuming all other assumptions are realized. After that, it'll start coming down."

But Monday, Parnell described the bill completely differently.

"It takes the burden off our kids and grandkids to pay this debt that is owed. It is a debt we will make good on," he said during a bill-signing ceremony before state employees in the atrium of the State Office Building in Juneau.

The bill Parnell signed, House Bill 385, calls for $3 billion to be transferred from the state's Constitutional Budget Reserve to the trust funds for the Public Employees' Retirement System and the Teachers' Retirement System. That was sought by the retirement board.

Such a cash infusion into the trust funds would reduce the unfunded liability, which last year was $12 billion, along with the annual cost of paying down that already incurred debt.

But Parnell and legislators also wanted to reduce the state's annual cost of paying down that debt for the next few years, which Parnell called "Alaska's biggest budget cost driver."

What the bill and separate "legislative intent" language in the $3 billion appropriation did was make numerous calculation changes to reduce those annual payments, dropping them from about $1 billion a year to $384 million, the board was told.

Parnell spokeswoman Sharon Leighow defended the bill Friday, saying that legislators would not be able to afford to make the payments otherwise.

"The escalating payments would also squeeze dollars from every other program and state service," she said.

House Bill 385 passed unanimously but it was drafted in secrecy late in the session, and few legislators in debate or interviews later appeared to fully understand or be able to describe what it did.

That might have resulted in "unintended consequences," board member Martin Pihl and others said.

"The liability is going to grow for eight years," he said. "I don't think that's right, and I don't think the Legislature understood that."

Alaska Department of Law attorneys and board legal counsel Rob Johnson have been analyzing those provisions along with the actuaries for the last two months, and they reported on them to the retirement board during its meetings this week.

Many of the dramatic changes that raised concerns on the board came from changes made in the legislative session's final days, Johnson said.

He reminded them of the old adage that "there are two things one should not watch being made: sausage and legislation."

The Department of Law said it concluded the "legislative intent" language did not carry the force of law, but cautioned that it had been included in the $3 billion appropriation and been passed by

the three-fourths of legislators required in order to withdraw money from the Constitutional Budget Reserve fund.

While the intent language wasn't enforceable, the department lawyers said agencies "may comply as a matter of comity."

Among the changes called for in the intent language is an elimination of "asset smoothing," in which big changes in value of the retirement trust funds, such as the 2009 stock market decline and subsequent bounce back, are averaged into unfunded liability calculations over five years.

Two actuaries at the board meeting said they did not recommend removing asset smoothing for their other clients.

Doing so creates more volatility in the amount of money the state would have to pay to unfunded liability each year, especially in the later years.

"By the time you get down to 10 years, it'll be a roller coaster ride," Slishinsky said.

Agreeing with Slishinsky about the value of asset smoothing was Leslie Thompson with the actuarial firm GRS. After multibillion-dollar actuarial errors a decade ago, the board contracts with a second actuarial consultant to review the work of Buck, its primary actuary.

Board members discussed whether they should comply with the intent language when they set the retirement contribution rates later this year, with some arguing that they also have a fiduciary responsibility to the trust funds as well as a responsibility to comply with legislative intent.

"I think we have to look at what's best for the system," Pihl said.

Board member Sam Trivette agreed, and suggested meeting with legislators to see if they really understood and meant to do all the things they did.

But the Department of Revenue's Gary Bader cautioned against not complying with the intent language when they set next year's rates, even if it was non-binding.

"I don't think saying 'they probably didn't understand' will sit well with people," he said.

Slishinsky has been asked to have data on various scenarios prepared for the board's September meeting

Teachers' checks shrink a bit as California tackles pension shortfall

CHRIS MEGERIAN, LA Times

When fifth-grade teacher Maggie Ellis receives her next paycheck at the end of the month, it will be a bit lighter. That's because she'll be contributing more money to the teacher pension fund, a small part of a sweeping, long-term plan to repair one of the state's most difficult financial problems.

"It hurts a little bit," said Ellis, who works in the Sacramento area and has more than a decade left until retirement. "But I look at it as a long-term investment."

The plan, which takes effect Tuesday, phases in higher contributions from employees, schools and the state over the next several years. If successful, the $74-billion shortfall in the teacher retirement system, the second largest public pension fund in the country, will be erased in three decades.

It's a sign that California's economic recovery has provided lawmakers with the cash necessary to tackle a problem that has dogged politicians around the country.

"If California can lead the way and show other states that this is the way to fund plans, this is a good step and a role model for other states to follow," said Hank Kim, executive director at the National Conference on Public Employee Retirement Systems.

Texas and New Mexico have already taken similar steps, requiring higher contributions into their teacher pension funds. Both states also reduced retirement benefits, something California did two years ago for newly hired educators.

Even with California's new plan in place, there are risks. The teacher pension fund's investments could be less lucrative than expected, making the shortfall more expensive to close. And schools are being forced to more than double their contributions into the fund, worrying district officials who are watching their own bottom lines.

In addition, the measure signed by the governor includes a self-destruct mechanism where the entire plan would grind to a halt in the unlikely scenario that a court decision forces the state to provide more education funding to help schools make their larger pension contributions.

"It is basically a safety mechanism to ensure the agreement that was reached for shared responsibility remains in place," said H.D. Palmer, a spokesman for Brown's Department of Finance.

The shortfall in the teacher pension fund developed over the last 15 years. During the dot-com bubble, lawmakers boosted retirement benefits without increasing payments into the pension fund.

"It was a predictable disaster," said Dean Baker, co-director of the Center for Economic and Policy Research in Washington. "The assumption was, the bubble would last forever."

But the bubble burst, then the recession struck, torpedoing California's pension investments and turning a burgeoning shortfall into a gaping hole. The problem worsened during the state's budget crises, as lawmakers scrambled to protect vital government services and allowed pension bills to continue growing.

The shortfall became the largest chunk of $200 billion in festering long-term costs that the nonpartisan legislative analyst's office tallied earlier this year. Without a fix, the fund would eventually run out of money, forcing the state to pay for pension checks directly out of the budget.

In January, Brown said he was ready to start addressing the issue, but said a solution would have to wait until next year. Assembly Democrats, led by then-Speaker John A. Pérez of Los Angeles, pushed for quicker action, and when Brown unveiled an updated budget proposal in May, he included a plan for teacher pensions.

"It costs us hundreds of millions of dollars for every year we wait," the governor told reporters in the Capitol. "We've been talking about it, and I believe it's time for action."

Dean Vogel, president of the California Teachers Assn., praised the governor for moving faster than expected.

"We had no idea it was going to happen so soon," he said. "We anticipated we would spend this year trying to figure out the details."

Under the final measure, contributions for teachers who were hired before Jan. 1, 2013, will increase from 8% to 10.25% over three years. Teachers hired after that date will see their contributions rise to 9.21% because their retirement benefits are less generous, the result of 2012 legislation intended to reduce pension costs.

The state's portion of the cost, currently 3.29% of statewide payroll, is slated to increase to 6.33% over three years.

Contributions from schools are increasing the most, from 8.25% of district payroll to 19.1% seven years from now.

Josephine Lucey, president of the California School Boards Assn., said the higher payments will gobble up money that would have reached the classroom.

"There's going to be less money for closing the achievement gap," she said. "Dollars that would be spent on students and educational programs are now going to be allocated to pensions."

State pension boards approve change

By Marsha Shuler; mshuler@theadvocate.com

Louisiana’s two largest statewide retirement systems took a step that could reduce their long-term debts and ultimately lower the costs paid for state government retirements.

The Louisiana State Employees Retirement System and the Teachers Retirement System of Louisiana boards voted to reduce their projected annual investment returns from 8 percent to 7.75 percent.

The investment returns are used in the calculation of the rates that government employers contribute toward funding the system.

Any earnings about the 7.75 percent return on the investments made by the pension systems go to paying down the “unfunded accrued liability,” said Legislative Auditor Daryl Purpera. More commonly called the UAL, it is the amount of money that has not been set aside to cover the cost

of pension benefits promised in the future. The UAL for the four statewide retirement systems now hovers near $19 billion.

State agencies and schools, the employers, are making additional payments to help lower the UAL, but those mandatory payments put a strain on the budgets for other expenses.

The change in interest rates approved by LASERS and Teachers, combined with a recently passed law, could relieve some of the budget pressures caused by the big payments.

"We have a severe problem with underfunding. If we have an opportunity to accelerate repayment of the UAL, we ought to be taking advantage of it," said Purpera, who chairs the Public Retirement Systems Actuarial Committee.

LASERS Deputy Director Maris LeBlanc said: "Because we expect to earn less, then the more money we make over that is money to put toward the debt."

The rate reduction under normal circumstances would trigger an increase in state and school systems' contributions because the systems would count on less earnings from investments.

But the state and schools will end up paying the same or a little less because the reduction will go into effect at the same time as a law which directs more of the pension systems' excess investment earnings into debt reduction, said Maureen Westgard, executive director of the Teachers system.

The Teachers board voted to lower the expected return because "any impact that would have been felt would be offset," said Westgard.

"The way we presented it to our board is 'the planets are aligned for us,' " said LASERS Executive Director Cindy Rougeou. "Based on things that happened during the legislative session and what we expect our investment returns will be ... we are expecting to reduce (the state contribution) by 1.5 percent."

Rougeou said the calculation is based on a 14 percent investment return, "and we expect that's going to be closer to 18 percent."

Westgard said Teachers is anticipating a return of more than 17 percent during the fiscal year which ended June 30.

Both systems are chalking up big investment returns today, but the 30-year average return is 8.2 percent for LASERS and 8.54 percent for Teachers.

Westgard and Rougeou said the new 7.75 percent assumption is realistic. Both referred to a new National Association of State Retirement Administrators report which looked at 126 different public pension plans. More than half reduced their investment assumptions since 2008. The average is 7.72 percent — right at the 7.75 percent adopted by Teachers and LASERS.

Lowering the rate will help bring more funds into the system, said Rougeou. “You try to find that perfect balance,” she said. “If you lower the rate more than you need to, you are going to put a burden on current taxpayers they should not have to pay.”

Iowa PERS sticks with 7.5% assumed rate of return

By: Barry B. Burr, July 7, 2014

Iowa Public Employees’ Retirement System, Des Moines, reaffirmed its 7.5% assumed rate of return on investments, Karl Koch, IPERS chief investment officer, said in a statement.

Cavanaugh Macdonald, actuarial consultant of the $27.65 billion Iowa PERS, recommended keeping the assumed return after doing an experience study.

As of June 30, 2013, the system’s return on investments, net of fees, was 10.12% for the most recent year and 9.57% annualized for 30 years. The system was 81% funded as of the same date.

National pension study: KPERS was sliding prior to 2012 reforms

Posted: July 9, 2014 - 2:16pm

A meta-study of state-by-state pension systems shows Kansas sliding from the middle of the pack during the past 20 years to a dangerously underfunded level, causing an analyst to praise lawmakers for 2012 reforms meant to stop the slide.

The report, "The High Cost of Big Labor: Understanding Public Pension Debt," was published by the Competitive Enterprise Institute, a libertarian think tank based in Washington, D.C.

Its author, Robert Sarvis, combined six national studies of public pension systems using data from different time periods and different assumed rates of investment return to rank states by the level of underfunding in their pension systems.

The report ranks New Mexico's pension system as the most underfunded and Illinois at No. 2. Kansas clocks in toward the middle at No. 23, but Aloysius Hogan, a senior fellow at CEI, cautioned that the most up-to-date study within the six combined reports has Kansas looking worse.

“In the Moody’s study, it has Kansas at 14, almost in the top 10 worst-funded in the nation,” Hogan said.

Data from that study came from 2012, while several of the others used averages from 1990 to 2009, that showed Kansas in the better-funded half of the states. Hogan said that suggested Kansas was slipping between 2009 and 2012 and lawmakers acted none too soon in reforming the Kansas Public Employees Retirement System that year.

“One of the takeaways from this analysis is there's pretty good agreement about how Kansas is doing," Hogan said. "It had been in the middle of the pack. It slipped down. A lot of people are

in this situation, and Kansas at least has made some steps in the right direction and others have not, so kudos to Kansas.”

The 2012 reforms increased the state's contributions to the pension system and increased the contributions of most employees in the system. It also established, for new public employees, a cash balance plan that is a hybrid of the traditional pension and the 401(k)-style direct contribution plans. The cash balance portion of the law doesn’t go into effect until 2015.

Alan Conroy, executive director of KPERS, said the increased contributions and a year of stellar investment returns should help a pension system that at the end of 2012 had fallen to a funding level of 56.4 percent. Conroy said that when the 2013 data is announced next week, the funding level should be close to 60 percent.

“I’m guessing we’ll be there, or be within shouting distance of it,” Conroy said.

Hogan said that is an important benchmark. A pension system is generally considered well-funded at 80 percent or above. Sixty percent is considered something of a floor for solvency.

“It is perilous, because once you get below the 60 percent ratio, it’s considered dangerous," Hogan said. "That you’ll never be able to come back.”

The CEI report includes some funding projections based on states' official assumed rates of return and others based on a "fair market value." Hogan said CEI believes states generally are overly optimistic with their assumed investment returns, including Kansas with its 8 percent long-term assumption.

“We’re recommending much lower, conservative math," Hogan said. "What’s at stake are people’s livelihoods in their post-retirement years. The consequences are pretty serious and personal.”

Conroy said KPERS has exceeded the 8 percent assumption during the past 25 years, despite wild swings in the market. Kansas spent several years "smoothing" investment losses from the Great Recession, but Conroy said that in the next few years the state will be doing the same with gains made during recent bull markets, including a 2013 calendar year that brought 17 percent investment returns.

If the 8 percent figure holds, Conroy said the reformed KPERS remains on track to erase more than $10 billion in projected debt, or unfunded actuarial liability.

“The changes made by the 2012 Legislature, I think, put us on sound footing to improve that funding ratio and address the UAL,” Conroy said.

Pension committee looks for middle-way on rising retirement costs for state, local government and employees

By Brad Shannon, Staff reporter, July 15, 2014

A key state pension advisory board took the first steps Tuesday toward accepting a new fact of government life: As public employees live longer in retirement, the cost of their pension benefits will grow faster and require bigger investments by both taxpayers and workers.

How fast the state takes on the new costs is still a big question. State Actuary Matt Smith outlined the problem last month in a report to the Legislature's Select Committee on Pension Policy. The report also noted the state's assumed return on investments is dipping over time.

The upshot is potentially a $1.2 billion bill next year for state and local government employers for the coming two-year budget cycle, and employees could be on the hook for $408 million more – if most of the costs are eaten in one budget cycle.

But both Smith and state budget director David Schumacher have said a phase-in of payments is possible.

Sen. Barbara Bailey, the Oak Harbor Republican who chairs the Select Committee, steered the diverse group toward a middle ground Tuesday that avoided endorsing any particular hike in the contribution rates paid by government or workers. At the same time, she won a unanimous vote to forward to the Pension Funding Council the full actuarial report and assumptions that state payments must go up by some amount.

"The time for using outdated formulas and skipping payments has passed. We need to get real with taxpayers about how we plan to fully fund state pensions and meet our obligation to retirees," Bailey said in a statement after the meeting in Olympia.

The Pension Funding Council meets July 28 and has the formal job of setting rates paid by state workers, teachers and local government workers, as well as governments in 2015-17. The funding council is staffed by budget writers for the House and Senate, Schumacher and Marcie Frost, director of the state Department of Retirement Systems.

But lawmakers are divided on how fast to proceed – just as a partisan divide marked the Legislature's budget discussions the past two years.

Some members of the Select Committee, including Senate Republican Leader Mark Schoesler of Ritzville, want the Legislature to bite the bullet and pay all of the new costs that, according to Smith's analysis, will plunge the state's two-worst funded plans into a more than $7 billion shortfall over the next few decades.

Schoesler said delays add to state costs eventually, and he was joined by Republican Rep. Bruce Chandler of Granger and Teachers Retirement System representative Gene Forrester in wanting to avoid a "phased-in" approach.

Others led by Democratic Sen. Steve Conway of Tacoma were leery of moving too quickly to adopt the new cost formula Smith has outlined, and he warned that it is important to have rate stability for workers and local governments that participate in the system.

Under Smith's most aggressive scenario that has the state paying down the new costs in just two or four years, employer rates could jump from 9.03 percent of pay to as high as 12.29 percent for those covered by the Public Employees' Retirement System plans and from 10.21 percent of pay to 14.47 percent in the Teachers' Retirement System.

Meanwhile, members' rates would rise from 4.92 percent of pay to 7 percent for members of PERS 2 and from 4.96 percent to 6.79 percent for members of TRS 2. Each plan would have different rate changes based on its actuarial needs.

Last year, Smith's analysis of funds showed the state's several retirement plans collectively had a $544 million overall surplus despite two first-generation plans that were still underfunded by a few billion dollars. His new report says extra money is needed to erase what now amounts to $4.4 billion in underfunding across all plans over the long haul. The TRS 1 and PERS 1 plans alone account for about $7.3 billion of unfunded liability.