TFFR – 2011 Legislative Impact

NDCEL and NDEA Annual Conventions

October 20, 2011

Fay Kopp, Deputy Executive Director – Retirement Officer

Shelly Schumacher, Retirement Program Manager

ND Retirement & Investment Office (RIO)

ND Teachers' Fund for Retirement (TFFR)

TFFR Board of Trustees

TFFR program is managed by a 7-member board of trustees who have a fiduciary responsibility to the fund's beneficiaries. The Board consists of 5 active and retired members appointed by the Governor and 2 state officials.

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

TFFR Board of Trustees

TFFR Mission:

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

State Investment Board (SIB)

TFFR investment program is implemented by State Investment Board.

State Officials

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

Pension Representatives

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

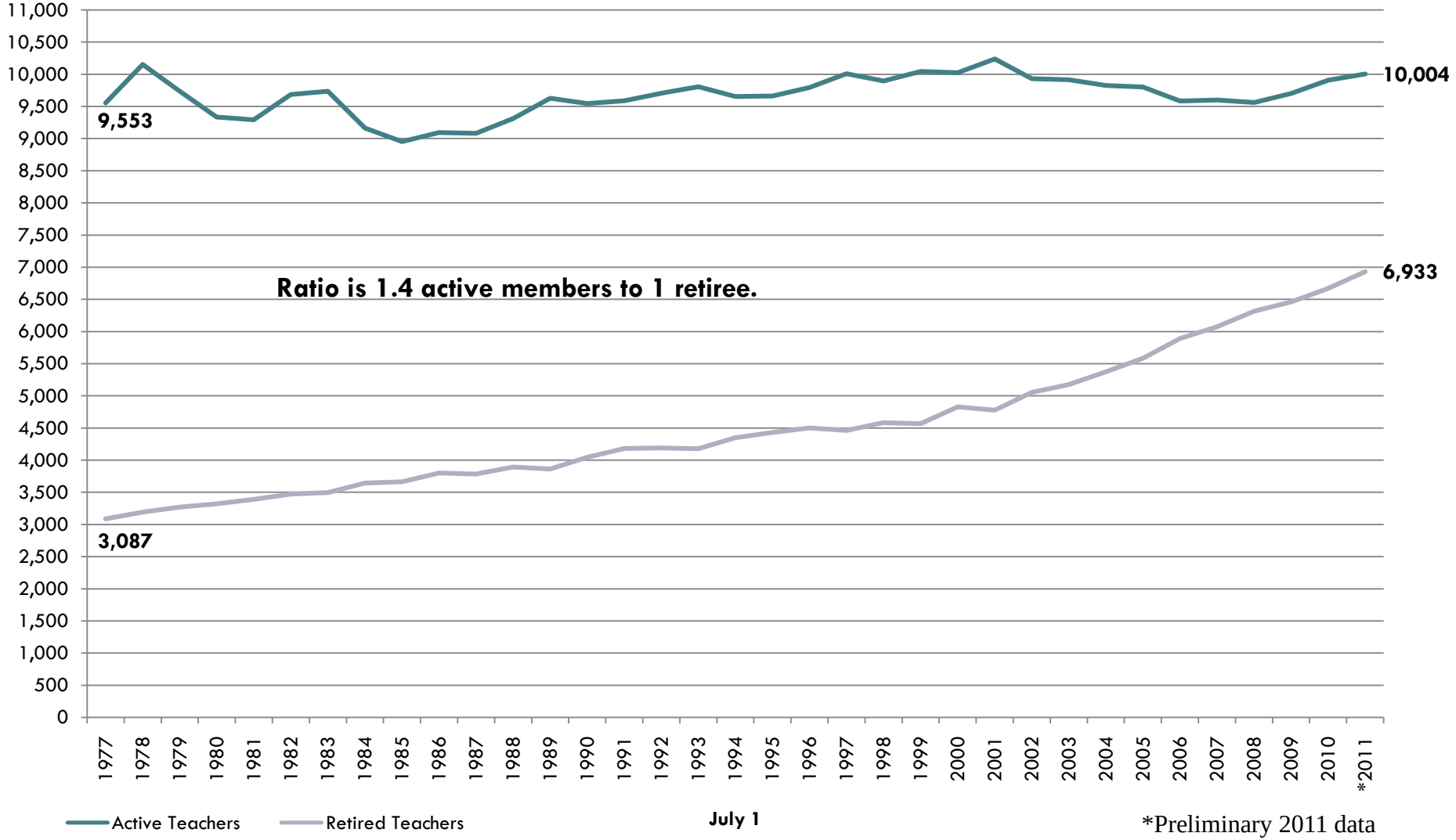
- Levi Erdmann (PERS)
- Howard Sage (PERS)
- Mike Sandal (PERS)

TFFR Background

TFFR Participating Employers

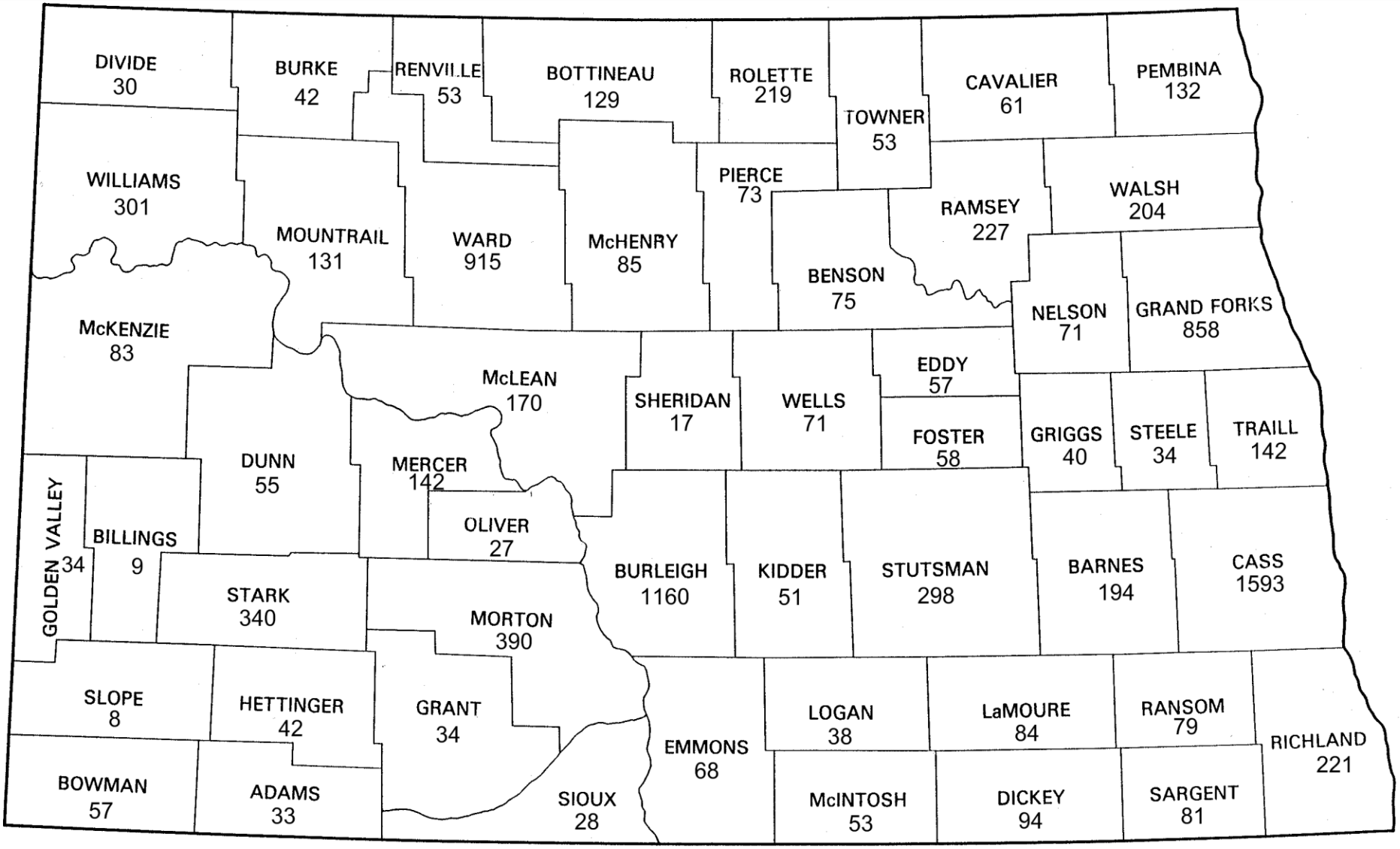
School Districts	183		
Special Ed Units		19	
Vocational Centers		5	
Counties	9		
State Agencies/Institutions	4		
Other – Closed groups		6	
2010-11 TOTAL EMPLOYERS			226

Active and Retired TFFR Members 1977 – Present



*Preliminary 2011 data

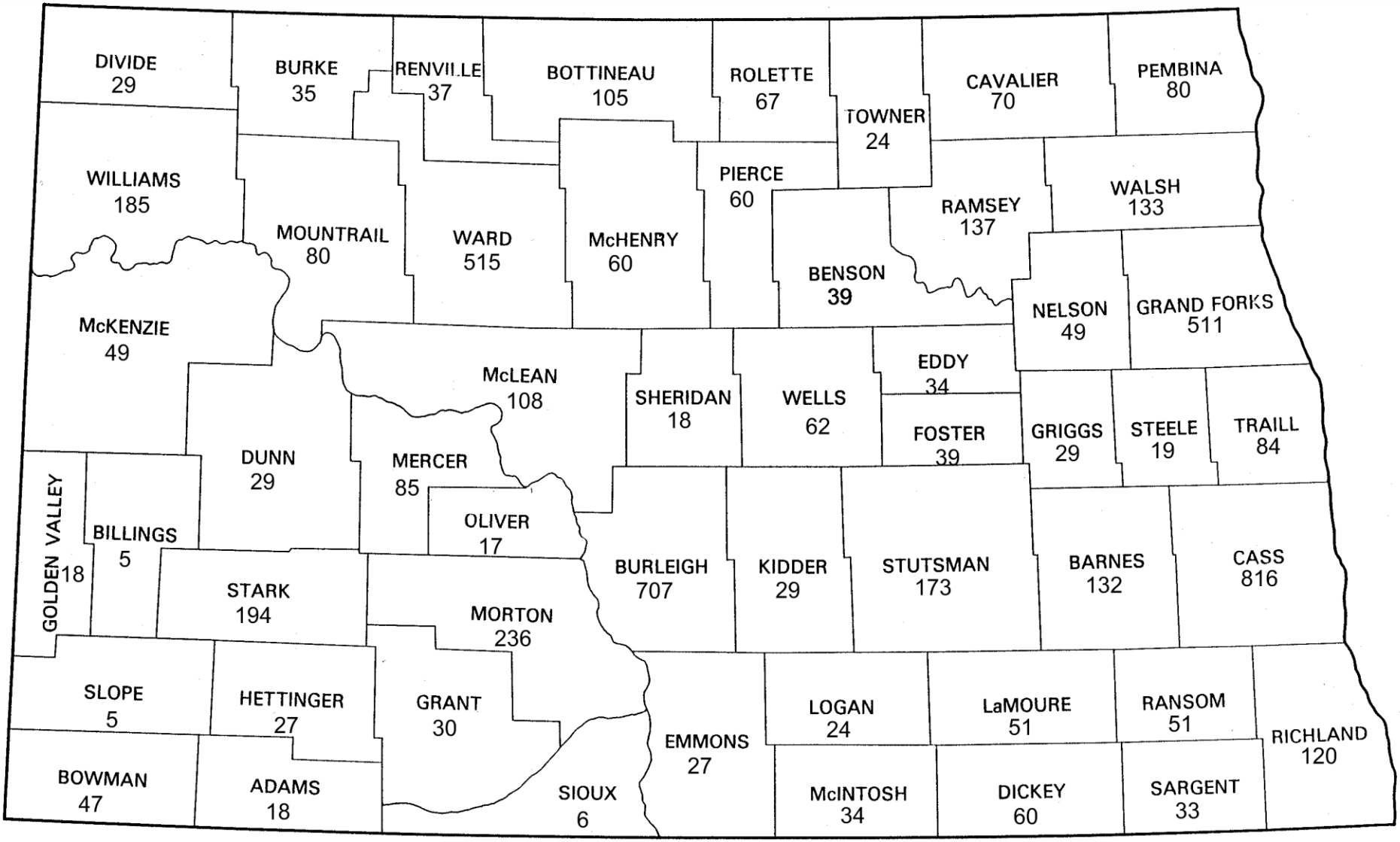
TFFR Active Members



In-state	9,544	Tier 1:	8,078
Out-of-state	460	Tier 2:	1,926
Total	10,004		10,004

*Preliminary 2011 data

TFFR Retired Members



In-state	5,632
Out-of-state	1,301
Total	6,933

*Preliminary 2011 data

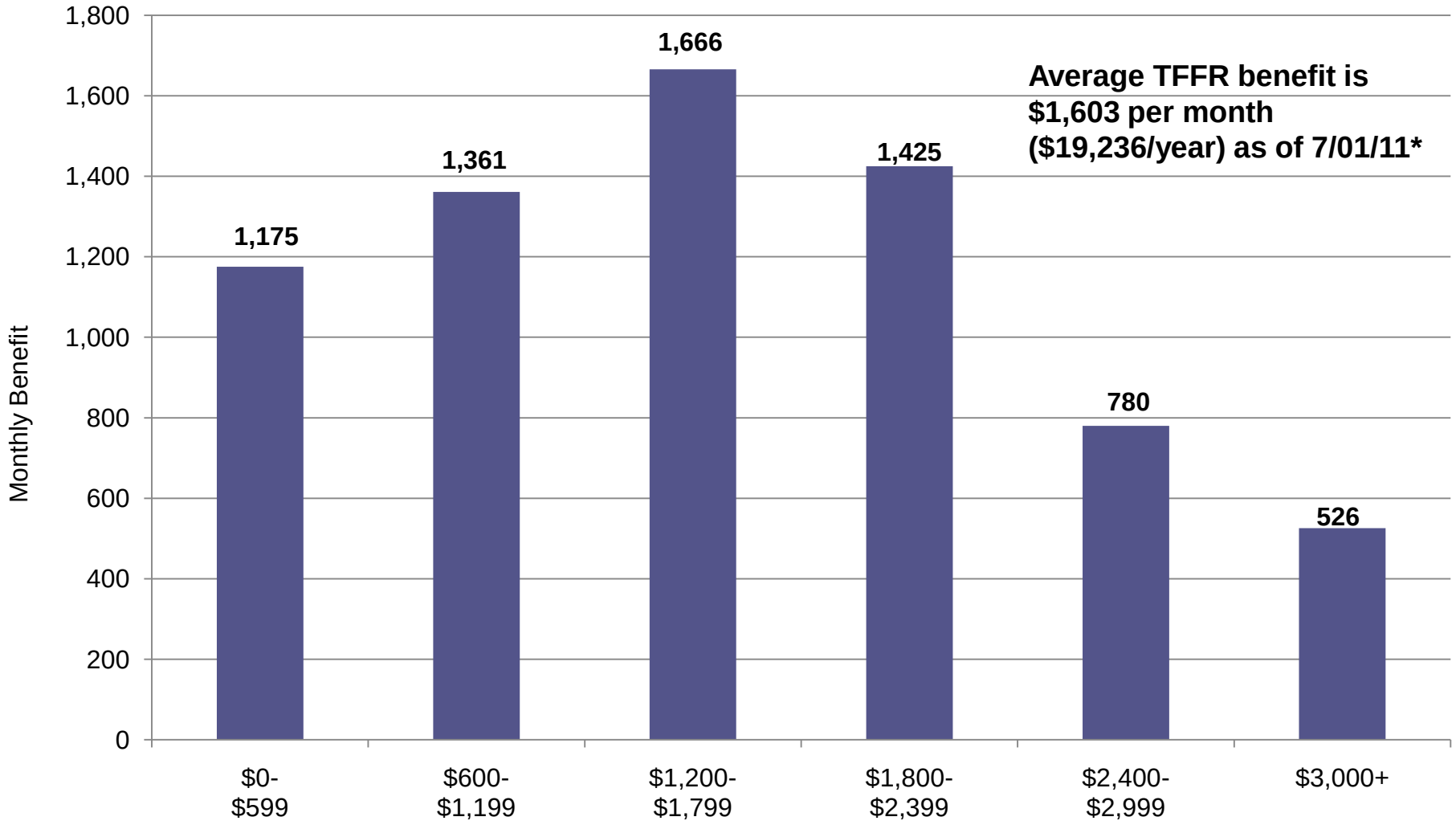
Average Monthly TFFR Benefits by County

(*preliminary 2011 data)

County	Ret Count	Avg Benefit	Tot al Benefit
Adams	18	1,485	26,725
Barnes	132	1,722	227,329
Benson	39	1,727	67,360
Billings	5	1,330	6,649
Bottineau	105	1,518	159,434
Bowman	47	1,447	68,025
Burke	35	1,346	47,108
Burleigh	707	1,762	1,245,968
Cass	816	1,838	1,499,510
Cavalier	70	1,349	94,456
Dickey	60	1,165	69,916
Divide	29	2,016	58,452
Dunn	29	1,724	49,992
Eddy	34	1,479	50,287
Emmons	27	1,472	39,733
Foster	39	1,748	68,176
Golden Valley	18	1,348	24,263
Grand Forks	511	1,888	964,614
Grant	30	1,298	38,936
Griggs	29	1,330	38,581
Hettinger	27	1,625	43,875
Kidder	29	1,495	43,364
LaMoure	51	1,494	76,208
Logan	24	1,523	36,554
McHenry	60	1,425	85,473
McIntosh	34	1,685	57,273
McKenzie	49	1,719	84,217
McLean	108	1,524	164,560

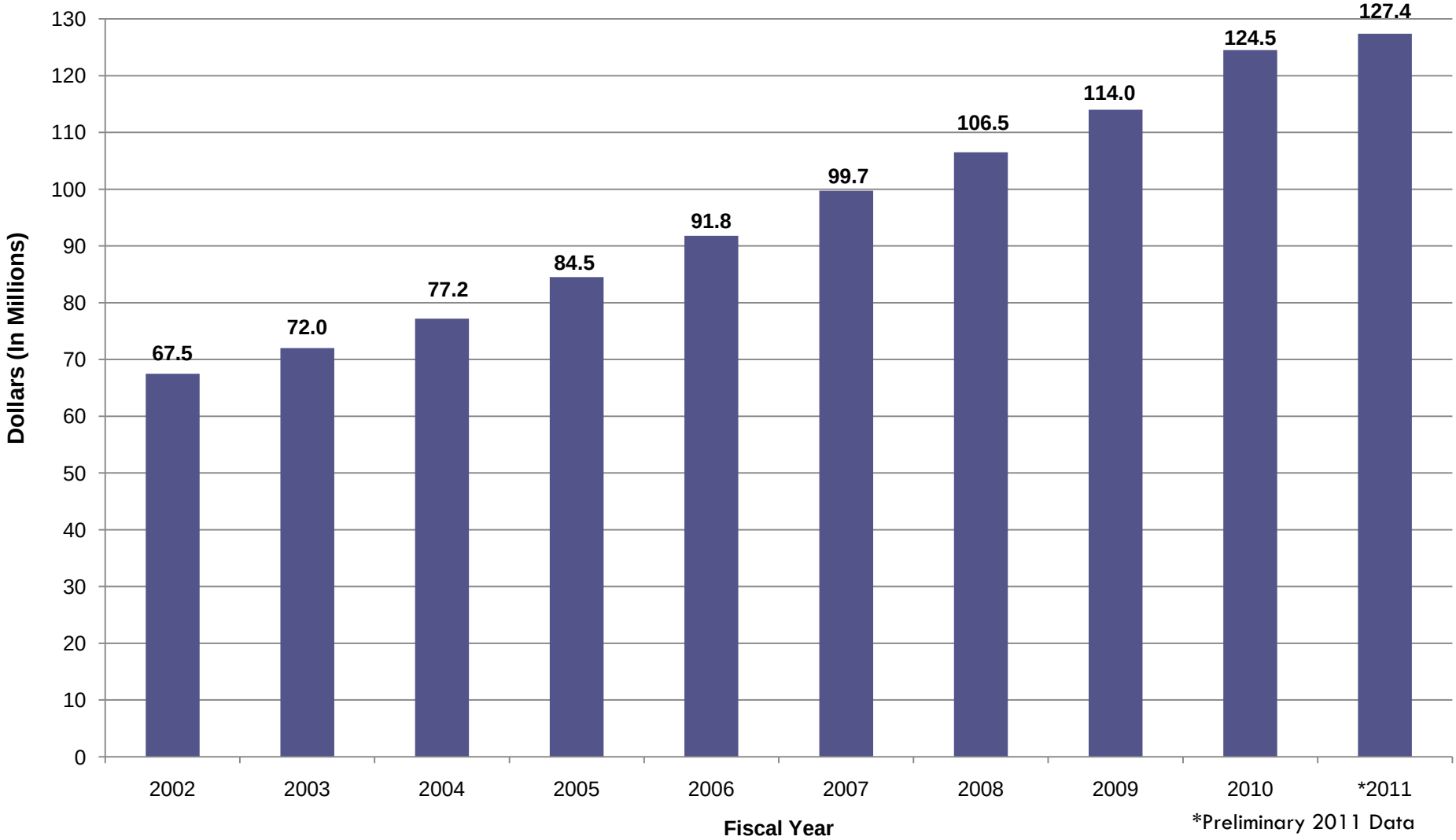
County	Ret Count	Avg Benefit	Total Benefit
Mercer	85	1,746	148,422
Morton	236	1,694	399,842
Mountrail	80	1,435	114,777
Nelson	49	1,401	68,655
Oliver	17	1,809	30,758
Pembina	80	1,756	140,481
Pierce	60	1,566	93,951
Ramsey	137	1,451	198,726
Ransom	51	1,337	68,198
Renville	37	1,653	61,152
Richland	120	1,694	203,328
Rolette	67	1,572	105,305
Sargent	33	1,216	40,113
Sheridan	18	1,408	25,351
Sioux	6	854	5,121
Slope	5	924	4,622
Stark	194	1,595	309,487
Steele	19	1,426	27,091
Stutsman	173	1,589	274,949
Towner	24	1,528	36,669
Traill	84	1,508	126,662
Walsh	133	1,561	207,548
Ward	515	1,722	886,959
Wells	62	1,502	93,140
Williams	185	1,687	312,172
Totals	**5,632**	**1,673**	**9,420,517**
Out of State	1,301	1,317	1,693,082
Grand Totals	**6,933**	**1,603**	**11,113,599**

Monthly TFFR Benefits by Benefit Amount

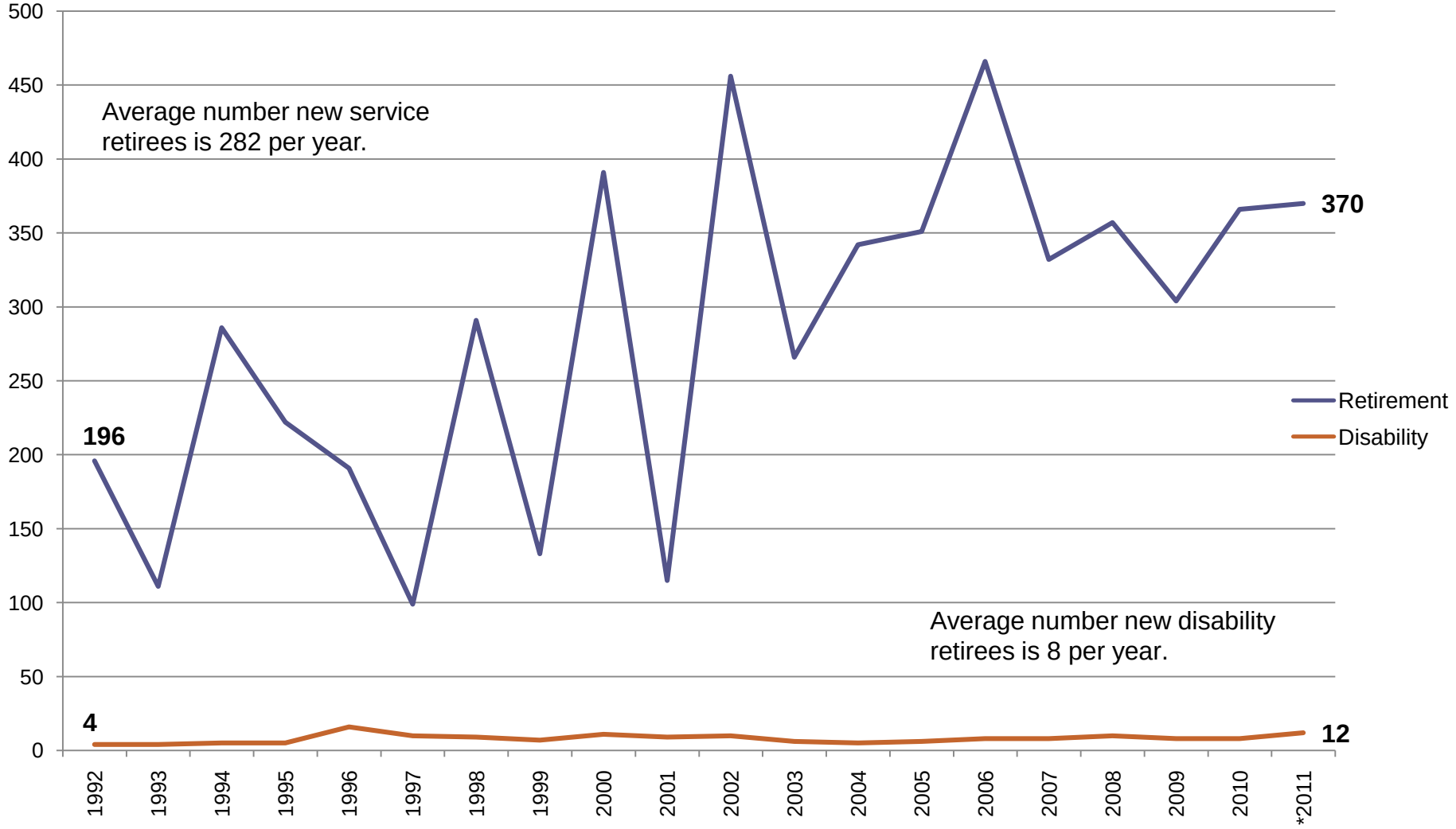


* Preliminary 2011 data

Annual TFFR Pension Benefits Paid



New Service and Disability Retirees



*Preliminary 2011 data

TFFR Plan Benefits

Membership

- Licensed by Education Standards and Practices Board (ESPB)
- Contracted with participating employer to provide teaching, supervisory, administrative, or extracurricular services
- Other members defined in state law
- Membership Tiers
  - Tier 1 – Members who have TFFR service credit on 7/1/08.
    - Tier 1 Grandfathered Members
    - Tier 1 Non-Grandfathered Members
  - Tier 2 – Members employed on or after 7/1/08
- **Note: 2011 legislation**
  - Tier 1 grandfathered members - within 10 years of retirement eligibility (Age 55+ or Rule of 65+ on 6/30/13)
  - Tier 1 non-grandfathered members – more than 10 years away from retirement eligibility

Grandfathered Members

- Grandfathering Criteria:
  - Vested Tier 1 member (3 yrs service) on 6/30/13 **AND**
  - Age 55 or greater on 6/30/13 **OR**

    Rule of 65 (age + service) or greater on 6/30/13

- Member's actual age and service credit (including any purchased service credit made before 6/30/13) will be calculated to the nearest thousandth (0.000).

- Grandfathered members will have current retirement eligibility provisions (i.e. Rule of 85)
  - Estimate about 3,500 grandfathered members

Non-grandfathered Members

- Non-grandfathered members include:
  - Tier 1 members who are more than 10 years away from retirement eligibility on 6/30/13
  - Tier 2 members
- Non-grandfathered members will have to work longer before normal retirement eligibility or will have to take a larger benefit reduction if they retire early.
  - Estimate about 6,500 non-grandfathered members
- Non-grandfathered members may purchase service credit by 6/30/13 to be grandfathered at actuarial equivalent cost. (See FAQ 2).

Contribution Rates

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

Note: 2011 legislation increased rates effective 7/1/12 and 7/1/14 to improve TFFR funding level. Increased rates will be in effect until TFFR reaches 90% funded ratio; then rates will be reduced to 7.75% each.

TFFR Employer Payment Plan (EPP) Models

Payment of member contributions on a tax deferred basis can be made by the employer through a salary reduction or in lieu of a salary increase.

- Model 1: Member contribution is paid by the member through a salary reduction and remitted by the employer on a tax deferred basis.
- Model 2 (all): All of the member contribution is paid by the employer in lieu of salary increase (per negotiated agreement) and remitted to TFFR on a tax deferred basis.
- Model 2 (partial %) or Model 3 (partial $): A portion of the member contribution is paid by the employer in lieu of a salary increase (per negotiated agreement) and remitted to TFFR on a tax deferred basis. The remaining member contribution is paid by the member and remitted by the employer on an after tax basis. **Effective 7/1/12, all member contributions (whether paid by employer or member) will be made on a tax deferred basis.**
- Other: Includes state agencies, closed groups with special provisions, or no model.

TFFR Employer Payment Plans 2010-11

	Employers		Members	
Model 1	98	43%	6,352	60%
Model 2 (all)	93	41%	3,714	35%
Model 2 (part %)	13	6%	216	3%
Model 3 (part $)	6	3%	129	1%
Other	16	7%	101	1%
Total	226	100%	10,512	100%

Eligible Salary

- Eligible salary (reportable) includes a member's earnings in eligible employment for performance of duties:
  - Teaching
  - Supervisory
  - Administrative
  - Extracurricular services

Ineligible Salary

- Ineligible salary (non-reportable) includes benefits or certain payments made to a member:
  - Fringe benefits – insurance programs, annuities, transportation, housing or expense allowances, etc.
  - Insurance programs – medical, dental, vision, disability, life, ltc, etc.
  - Payments for unused sick, personal, vacation, or other unused leave
  - Recruitment bonuses
  - Early retirement incentive pay, severance pay, or other payments conditioned on or made in anticipation of retirement or termination
  - Teacher's aide, ticket taking, referee, bus driver, janitorial pay
  - Amounts received by a member in lieu of previously employer provided benefits or payments
  - Other benefits or payments the TFFR Board determines to be ineligible TFFR salary.

Vesting and Benefits

- Vesting status – entitled to lifetime annuity benefit at normal retirement age.
  - Tier 1 (employed before 7/1/08) - 3 years
  - Tier 2 (employed after 7/1/08) - 5 years
- Benefits Available
  - Retirement Benefits
  - Disability Benefits
  - Death Benefits
  - Refund/Rollover of member contributions + interest

Retirement Eligibility

- **NOTE: 2011 legislation raised retirement eligibility age for unreduced benefits and increased reduction factor for early reduced benefits for non grandfathered members who are more than 10 years away from retirement eligibility on 6/30/13.**

Unreduced benefits (normal retirement):

- Tier 1 Grandfathered members
  - Age 65 with 3 years; or
  - Any age with Rule of 85 (age + service = 85+)
- Tier 1 Non-grandfathered and Tier 2 members
  - Age 65 with 3 years (Tier 1) or 5 years (Tier 2); or
  - Minimum age 60 with Rule of 90 (age + service = 90+)

Reduced benefits (early)

- Tier 1 Grandfathered members
  - Age 55, benefits reduced 6% year
- Tier 1 Non-grandfathered and Tier 2 members
  - Age 55, benefits reduced 8% year

Retirement Benefit Formula

- Benefit Formula :

  Final Average Salary (FAS) X 2% (multiplier) X Years of Service

  Tier 1: 3 year FAS Tier 2: 5 year FAS

- <u>Example</u>:
  - $3,000 FAS X 2% X 30 yrs = $1,800 month

    60% of final average salary for career teacher
  - $3,000 FAS X 2% X 15 yrs = $900 month

    30% of final average salary
- Benefit Options: single life annuity, 100% and 50% joint and survivor, 10 and 20 year term certain, level income with Social Security, and partial lump sum option.

Summary of TFFR Pension Benefits for Membership Tiers

	Tier 1 Grandfathered	Tier 1 Non-Grandfathered	Tier 2 All
Vesting Period	3 years	3 years	5 years
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule of 85	Rule of 90	Rule of 90
OR Normal Retirement Age	65	65	65
Reduced Retirement Eligibility			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
Retirement Formula Multiplier	2%	2%	2%
x FAS	3 year FAS	3 year FAS	5 year FAS
x Service Credit	Total Years	Total Years	Total Years

Disability Benefits

- Effective 7/1/13
- Eligibility
  - 5 years of service credit
- Disability must be total – permanent or temporary
  - Review by medical consultant
  - Approval by TFFR Board
- Formula
  - Retirement formula with no age reduction
  - Final average salary X service X 2%

Retiree Re-employment

- **General Rule**
  - Retirees may return to covered employment after 30 day waiting period.
  - Employment is limited to a maximum number of hours in a fiscal year based on length of work arrangement.
    - 9 mo. 700 hours 11 mo. 900 hours
    - 10 mo. 800 hours 12 mo. 1,000 hours
  - Retiree continues receiving monthly TFFR retirement benefit, but benefit does not increase as result of returning to employment.
  - Employer contributions are paid based on retiree salary. Retiree member contributions will also be paid **(2011 leg effective 7/1/12)**.
- **Exceptions to General Rule**
  - Critical Shortage Areas
  - Benefit Suspension and Benefit Recalculation

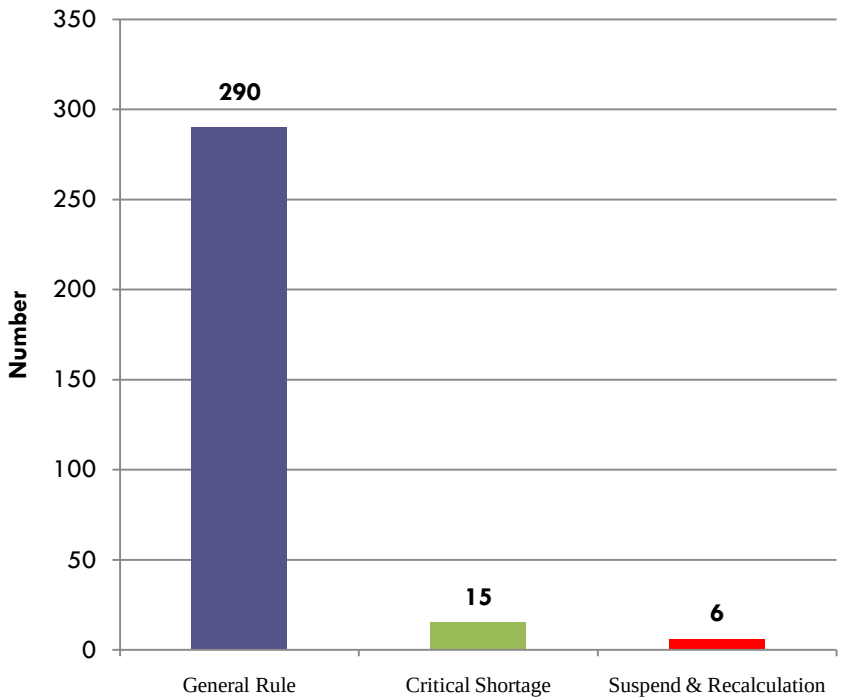
Require Re-Employed Retiree Contributions

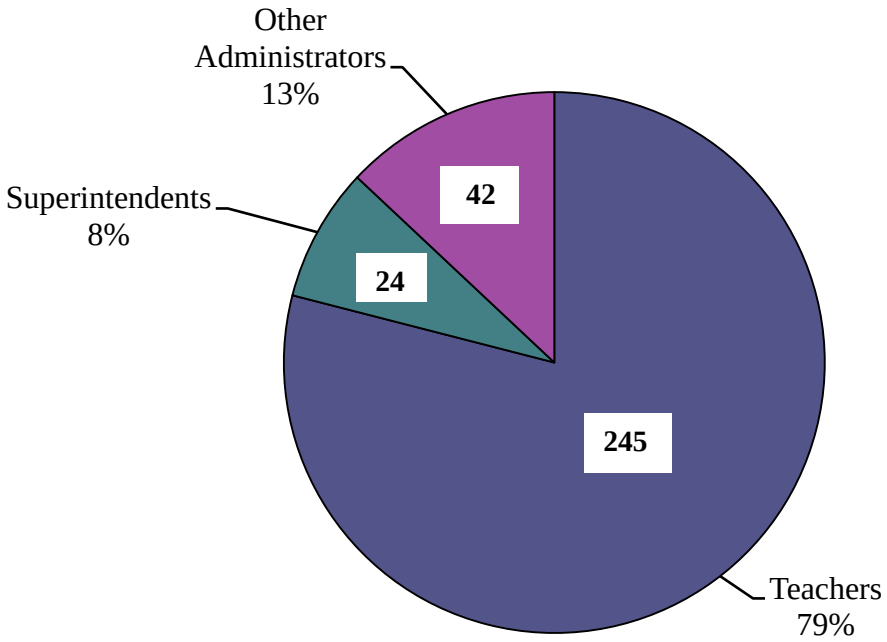
- Effective 7/1/12, member contributions will be required on all re-employed retirees on salary earned in covered employment.

RATES %	Employer	Retiree	Total
Current			
7/1/11	8.75%	0.0%	8.75%
7/1/12	10.75%	9.75%	20.5%
7/1/14	12.75%	11.75%	24.5%

- For 2011-12 school year, employer contributions only should be paid at current 8.75% rate. Beginning 7/1/12, both employers and re-employed retirees begin paying at increased rates for 2012-13 school year. Rates increase again on 7/1/14 for 2014-15 school year.
- Payment of retiree contributions by employer must be same as what is paid for active members (if any), based on Employer Payment Plan Model.

2010-11 Retiree Re-employment





Total Retirees: 311
Employers: 127

Average Age: 61

Average Salary: $24,700

2011 Legislation

TFFR Legislation

Approved:

- HB 1134 TFFR Funding Improvement
- HB 1133 TFFR Administrative Changes
  - Note: Administrative rules are being drafted.

Failed:

- HB1258 Defined Contribution Plan
- HB 1398 Modified Final Average Salary for Administrators
- SB 2344 Change Composition of SIB

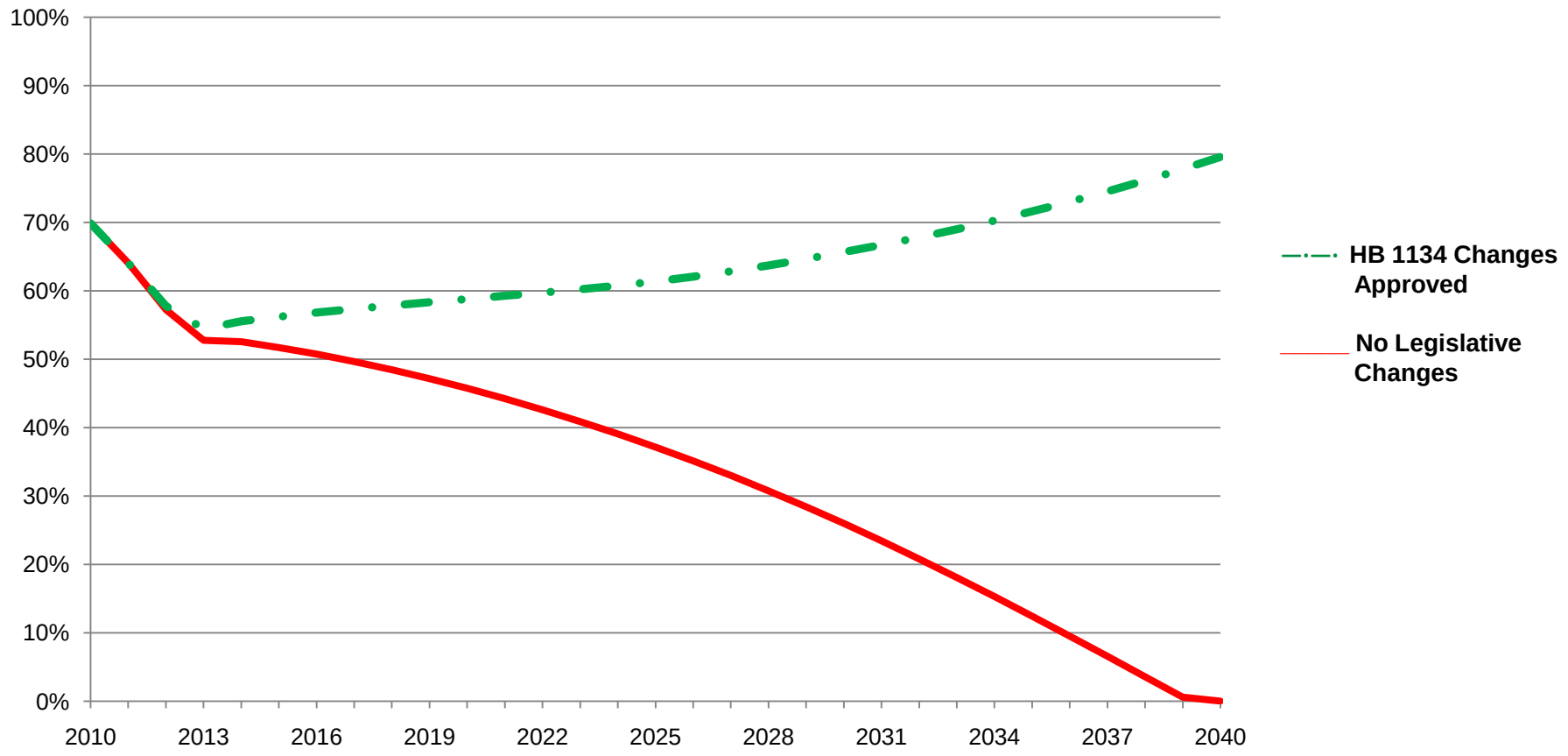
HB1134 TFFR Funding Improvement

- Contribution Increases - total 8%, split 50/50, 2 biennium (7-1-12 and 7-1-14)
  - Increase member contributions +4%
  - Increase employer contributions +4%
  - Require re-employed retiree contributions

- Benefit Changes (7-1-13)
  - Tighten disability retirement eligibility and benefit calculation
  - Raise retirement eligibility age for unreduced benefits for non-grandfathered employees
    - Grandfathered Tier 1 employees within 10 years of retirement would retain current eligibility provisions (i.e. Rule of 85).
    - Non-grandfathered Tier 1, Tier 2, and future employees would have to work until age 60 with Rule of 90 to be eligible for unreduced benefits.
  - Increase reduction factor for early reduced benefits from 6% to 8% for non-grandfathered employees.

- **With HB1134 changes, plus 8% returns in the future, TFFR funded level is projected to reach about 80% over 30-year period.**

Projected TFFR Funded Ratio (AVA)
HB1134 – Contribution Increases and Benefit Changes



- With HB1134 changes, plus 8% returns in the future, TFFR funded ratio is projected to reach about 80% over 30-year period.

HB1133 - Administrative Changes

- No actuarial impact on the plan.
- Clarify definition of eligible retirement salary.
  - Remove retention, experience, and service related bonuses from automatically being included as eligible retirement salary.
  - Clarifies the TFFR Board can determine ineligible retirement salary when special benefits or payments are not clearly defined.
- Clarify and update beneficiary definition.
- Modify outdated death benefit payment provisions to clearly describe to whom, under what conditions, and what amount of death benefits should be paid.
- Incorporate federal tax law changes as they relate to qualified plans.

Employer Responsibilities

Information will be sent to all employers in November regarding TFFR Employer Reporting changes **effective 7/1/12.** Employer responsibilities are as follows:

- All employers will need to incorporate new member and employer contribution rates into payroll systems.
- All employers will need to incorporate payment of member contributions on re-employed retirees into payroll systems.
- Employers who are currently paying all or a portion of member contributions in lieu of a salary increase (Model 2 and Model 3) will need to negotiate who will pay increased member contributions.
- Model 2 partial and Model 3 partial employers will also need to update payroll software to reflect change in tax treatment of member contributions.
- All Employers must complete new TFFR Employer Payment Plan forms indicating how payment of member contributions will be made prior to 7/1/12 rate increase. Forms will also need to be filed before the 7/1/14 rate increase.

HB 1258 – Defined Contribution Plan

- HB 1258 would have closed existing defined benefit (DB) plan to new employees hired after 6/30/12 .
- HB 1258 would have created a defined contribution (DC) plan for new employees hired 7/1/12 or after.
- Rates: Employee 7.75% and Employer 8.75% of salary
- Bill was amended to defer recognition of the fiscal impact (except implementation costs) until next biennium during which time additional actuarial valuations would be performed.
- HB 1258 failed in the House, 38-56.

HB 1258 – Defined Contribution Plan

- Actuarial review showed the long term financial status of current DB plan would have been negatively affected (unless increased funding) because:
  - Over time employees in closed DB plan would retire or terminate, and new employees would participate in the new DC plan.
  - As number of actives declines in the DB plan, total payroll declines, and contributions paid into the plan drops.
  - This reduces amount of funds to pay unfunded liability of DB plan.
- Projected Year TFFR Assets would be Exhausted

	Current Plan – No Changes	HB 1134	HB 1258	HB 1134 & HB 1258
Year of Exhaustion	2040	Never	2031	2037

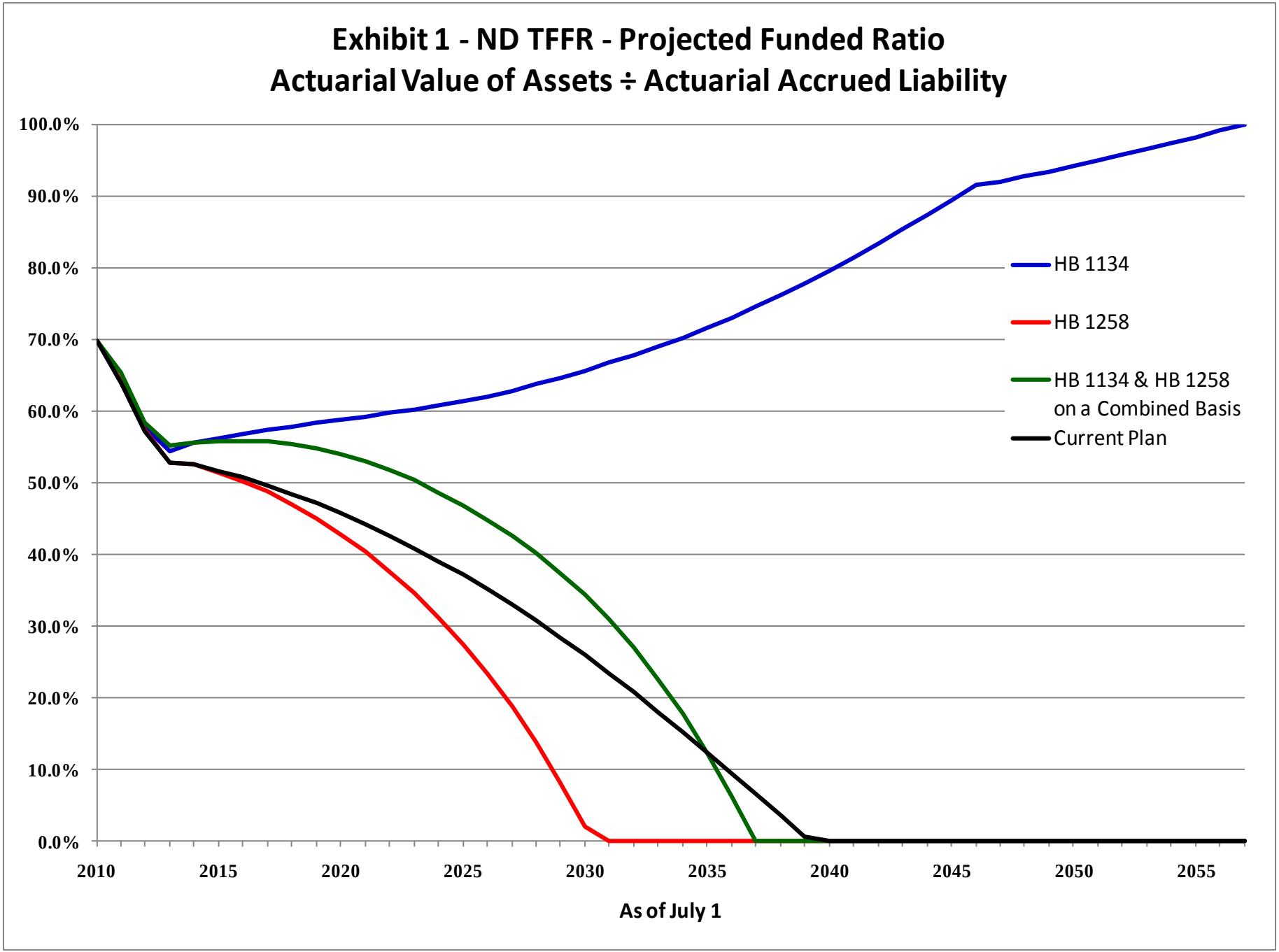


Exhibit 1 - ND TFFR - Projected Funded Ratio
Actuarial Value of Assets ÷ Actuarial Accrued Liability
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
2010
2015
2020
2025
2030
2035
2040
2045
2050
2055
As of July 1
HB 1134
HB 1258
HB 1134 & HB 1258 on a Combined Basis
Current Plan

Future Legislative Proposals?

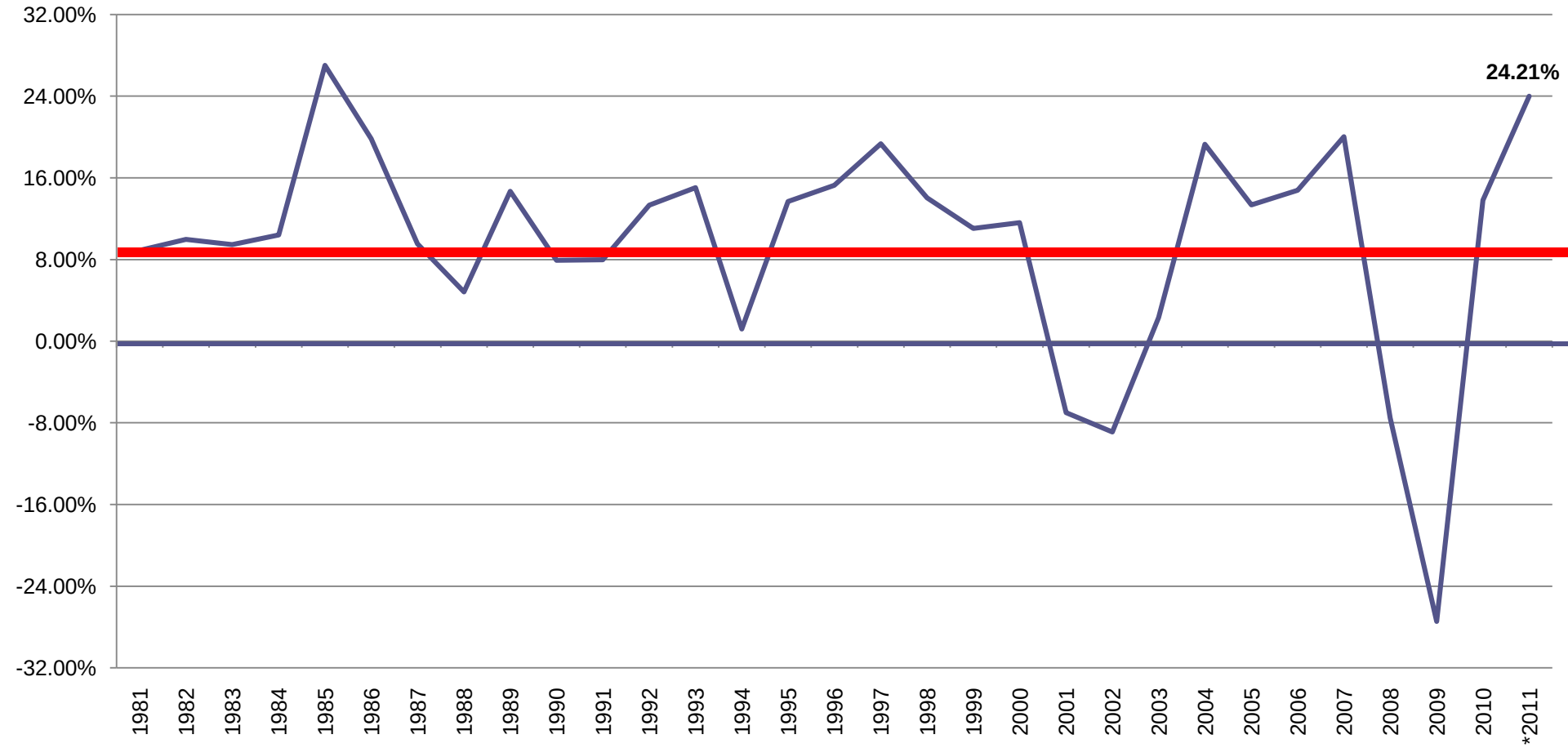
- 2013 legislative session
  - The TFFR Board will determine the need for any future legislation after receipt of 2011 valuation report and projections. At this time, no significant changes are being discussed.
  - Study bills must be filed with interim Legislative Employee Benefits Programs Committee by 4/1/12.
  - Expect more discussion in future about financial sustainability of current defined benefit plan, and possible creation of defined contribution and/or hybrid plans.
  - Expect more discussion about 2% benefit formula, retirement eligibility age, salaries used in benefit calculation, etc.
- 2013 - 100 year anniversary of TFFR

TFFR Investments

TFFR Investments

- Asset allocation and investment policy is determined by TFFR Board, with assistance from SIB Investment Director.
- Asset Liability study is conducted every 5 years to consider appropriate asset mix for funding TFFR pension liabilities.
- Study was recently completed, and TFFR Board is updating investment policy statement to include revised asset class descriptions and target asset mix for SIB implementation.
- More information will be provided in next SIB newsletter regarding TFFR asset liability study results.

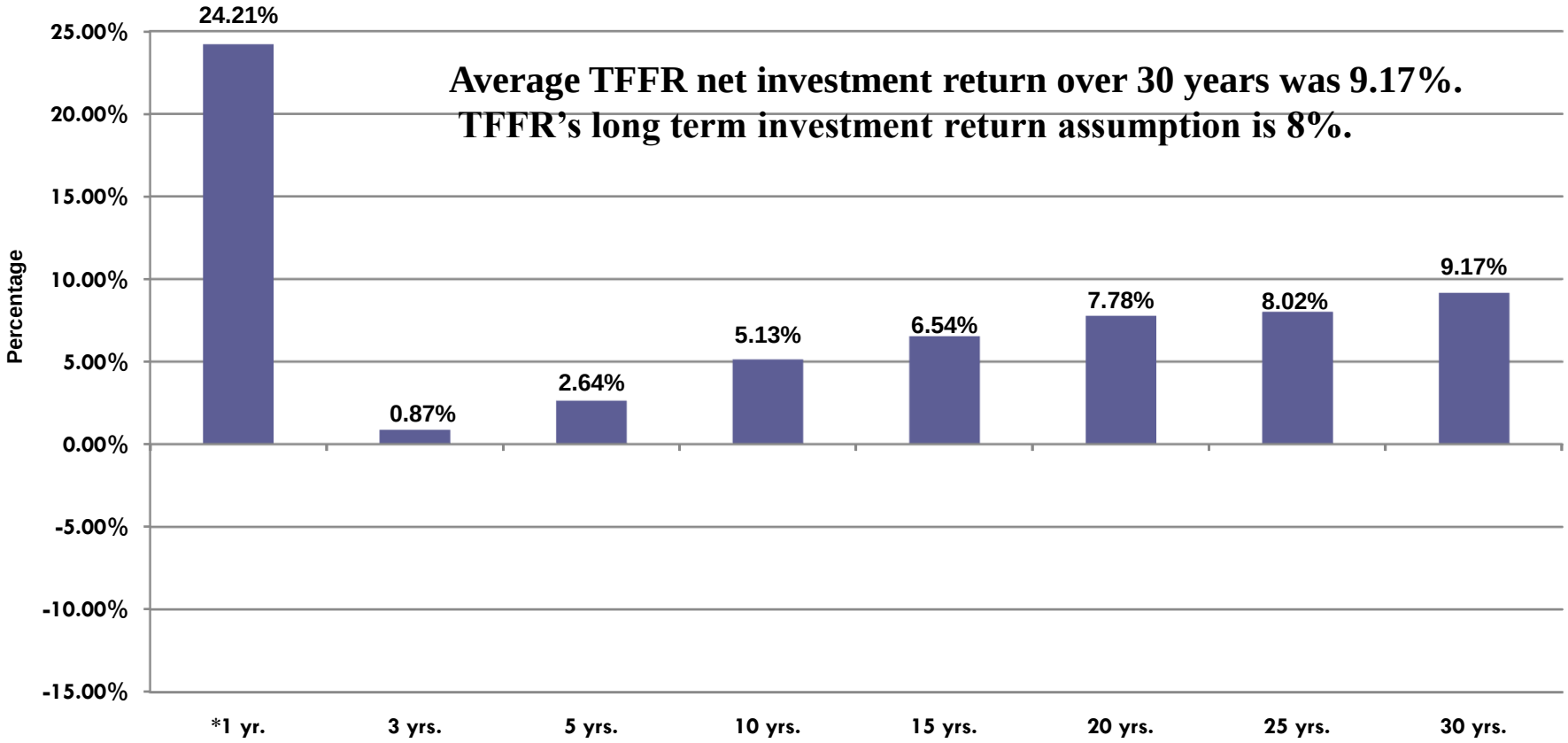
TFFR Net Investment Performance – Annual 1981-2011



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

*Preliminary 2011 Data

TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2011



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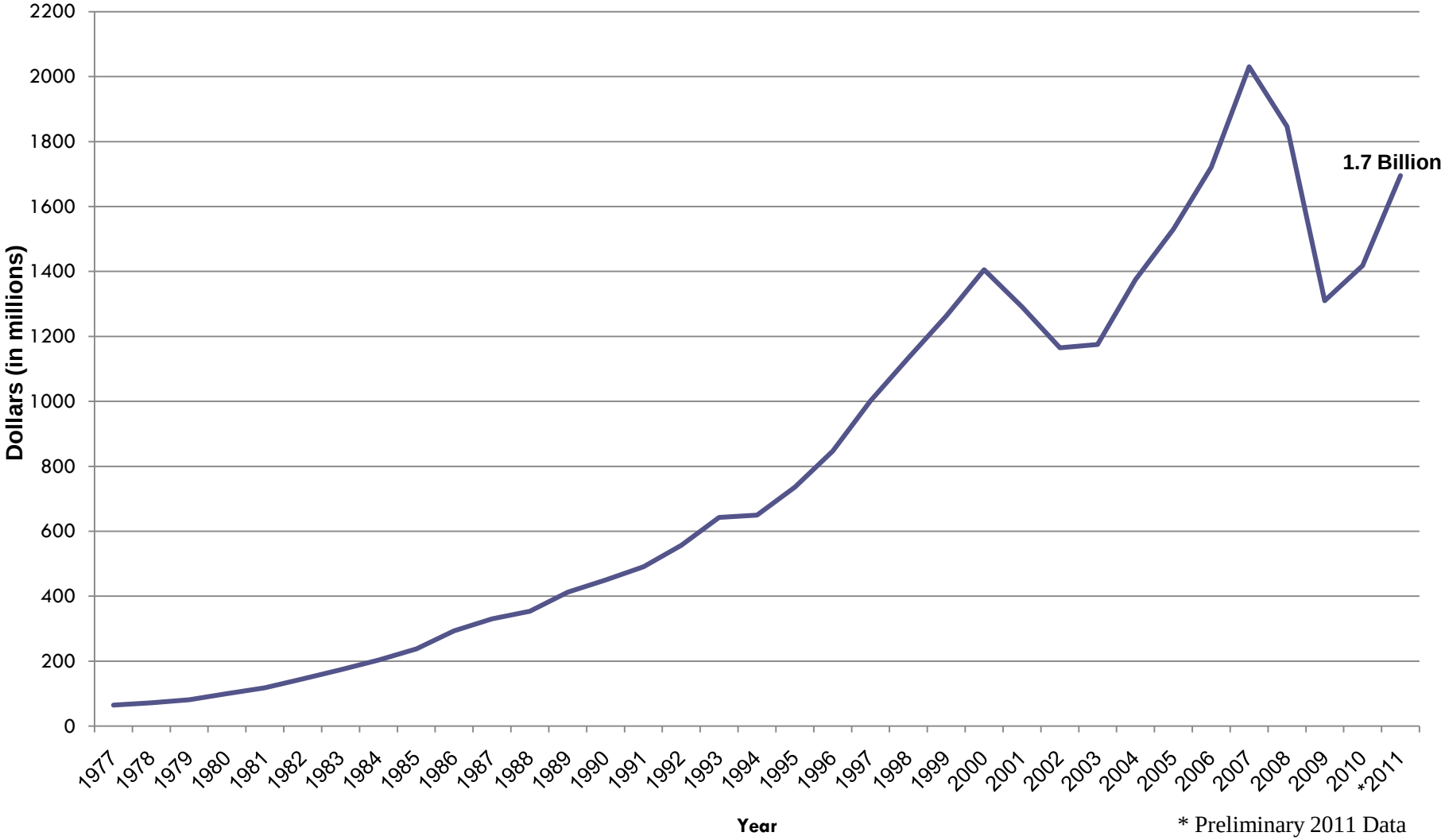
*Preliminary 2011 Data

Market Value of TFFR Assets 1977 - 2011



* Preliminary 2011 Data

Investment Outlook

- As encouraging as investment returns were for fiscal year ending June 30, 2011, the outlook for capital market returns going forward is somber.
- Overall economy continues to show troubling signs of weakness.
  - Downgrade of the U.S. credit rating
  - Persistent high unemployment
  - Weak consumer spending
  - Struggling housing market
  - Sluggish growth
  - Another potential recession??
- Current fiscal year to date estimated performance is about -10%.
- Recovery may take a number of years.

TFFR Funding

Retirement Funding Equation

C + I = B + E

- Contributions + Investments = Benefits + Expenses
- Not just for today, but for the long term.

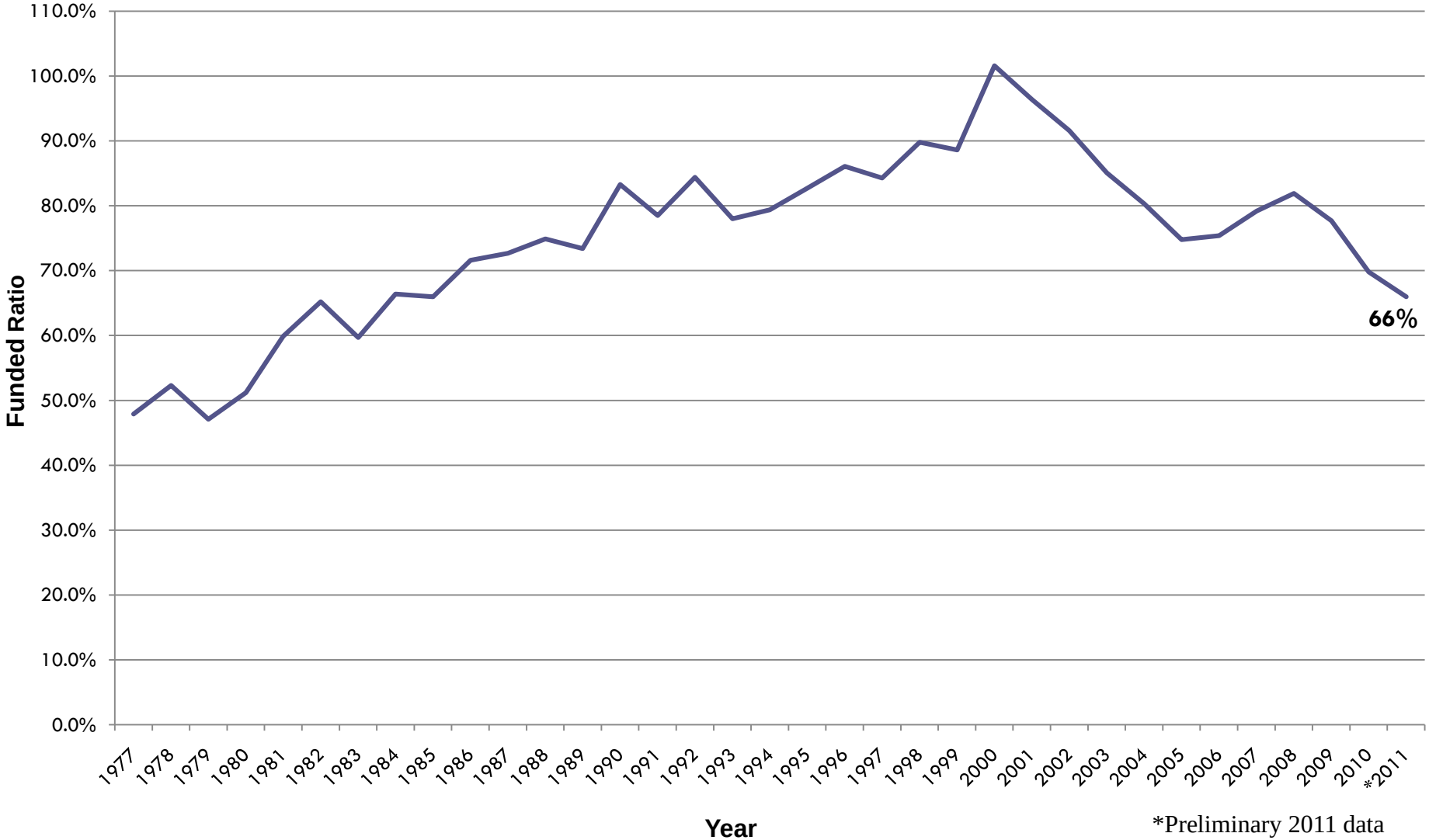
Preliminary 2011 Actuarial Valuation Report

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

Note:

Market value of assets (MVA)	$ 1.7 billion
MVA Funded ratio	63%

TFFR Funded Ratio (AVA)
1977 - 2011



*Preliminary 2011 data

FAQ 1

- **How can I find out when I am eligible to retire and how much I will receive when I retire?**
  - Members may request a personalized benefit estimate (phone, email, regular mail, conventions). Estimates will be mailed to home address.
  - During 2011-13 transition period, staff may be unable to provide individual estimates under every scenario until programming for grandfathering provisions and modified retirement eligibility requirements is completed. Please be patient.
  - Benefit estimates on annual member statements may be limited until programming is completed.

FAQ 2

- **On 6/30/13, I will be at the Rule of 63 (age 43 with 20 years service), so will not meet the grandfathering criteria. Can I purchase service credit so I will be grandfathered and eligible to retire at Rule of 85?**

  - Yes, you may be able to purchase service credit (refunds, air time, out of state credit, etc.) to be grandfathered, **if** you meet the purchase eligibility requirements outlined in state law. For example, you may be able to purchase up to 5 years of "air time" which would allow you to qualify so long as purchase is completed by 6/30/13.

  - **Important Note:** Please be aware that the actuarial cost increases significantly, particularly for a non-grandfathered Tier 1 member, if the service purchase allows you to be grandfathered and eligible to retire at the Rule of 85, instead of waiting until minimum age 60 with the Rule of 90. The acceleration of unreduced retirement age results in a significant increase in the service purchase cost. In addition, the service purchase cost also includes the value of foregone contributions due to the member being eligible to retire earlier with the purchased service. Since member contributions increase effective 7/1/12, the value of foregone employee contributions is also greater.

FAQ 3

- **Will fiscal year 2011's excellent investment performance of over 24% close TFFR's funding gap?**
  - No, a funding deficit will still exist.
  - 1 or 2 good years of strong investment returns will not undo the funding damage from the 2008-09 market meltdown.
  - Funding levels are expected to dip for the next few years as 2008-09 investment losses are phased in, and then should increase.
  - If investment returns are greater than 8% over the long term and if TFFR reaches 90% funded level, contribution rates will be reduced sooner than expected. But if returns are less than 8% over the long term, contribution rates will remain at the higher levels.
  - Current fiscal year to date performance is about -10%.

Summary

- TFFR pension benefits are funded from employee contributions, employer contributions, and investment earnings.
- 2008-09 financial market meltdown negatively affected TFFR funding levels.
- After lengthy study, and input from member and employer groups, TFFR Board submitted legislation to address declining funding levels.

- **State Legislature took action in 2011:**
  - Increased member and employer contributions (7/1/12 and 7/1/14)
  - Reduced member benefits for non-grandfathered employees (7/1/13).

- **TFFR funded level is expected to return to about 80% over 30 years, assuming 8% returns over long term.**

- **TFFR long term funding outlook is positive.**

TFFR Information

TFFR website: www.nd.gov/rio

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