

NDTFFR UPDATE

ND Retired Teachers Convention – Minot August 26, 2015

Fay Kopp, Chief Retirement Officer – Deputy Executive Director

ND Teachers' Fund for Retirement (TFFR)

ND Retirement & Investment Office (RIO)

ND RTA 2015 Convention Theme

Discover the Magic....



of Your

TFFR Defined Benefit Plan

TFFR Board of Trustees

TFFR benefits 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**
 - Rob Lech, Jamestown
- ▣ **Retired Members**
 - Mel Olson, Fargo
 - Mike Burton, Fargo
- ▣ **State Officials – Ex officio members**
 - Kelly Schmidt, State Treasurer
 - Kirsten Baesler, State Superintendent

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

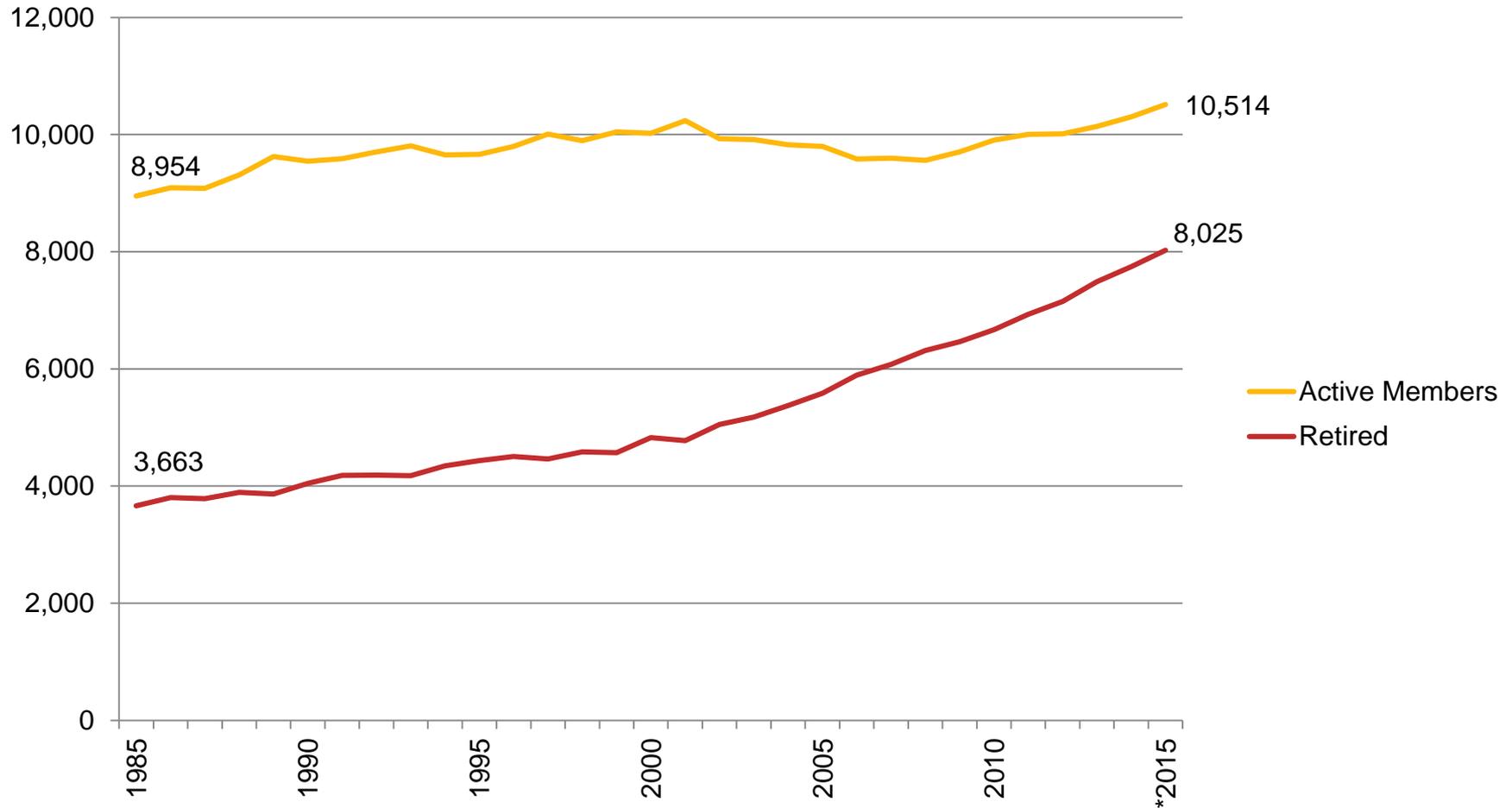
- ▣ Mike Gessner (TFFR)
- ▣ Rob Lech (TFFR)
- ▣ Mel Olson (TFFR)

- ▣ Tom Trenbeath (PERS)
- ▣ Mike Sandal (PERS)
- ▣ Yvonne Smith (PERS)

TFFR Background



Active and Retired TFFR Members 1985 - 2015



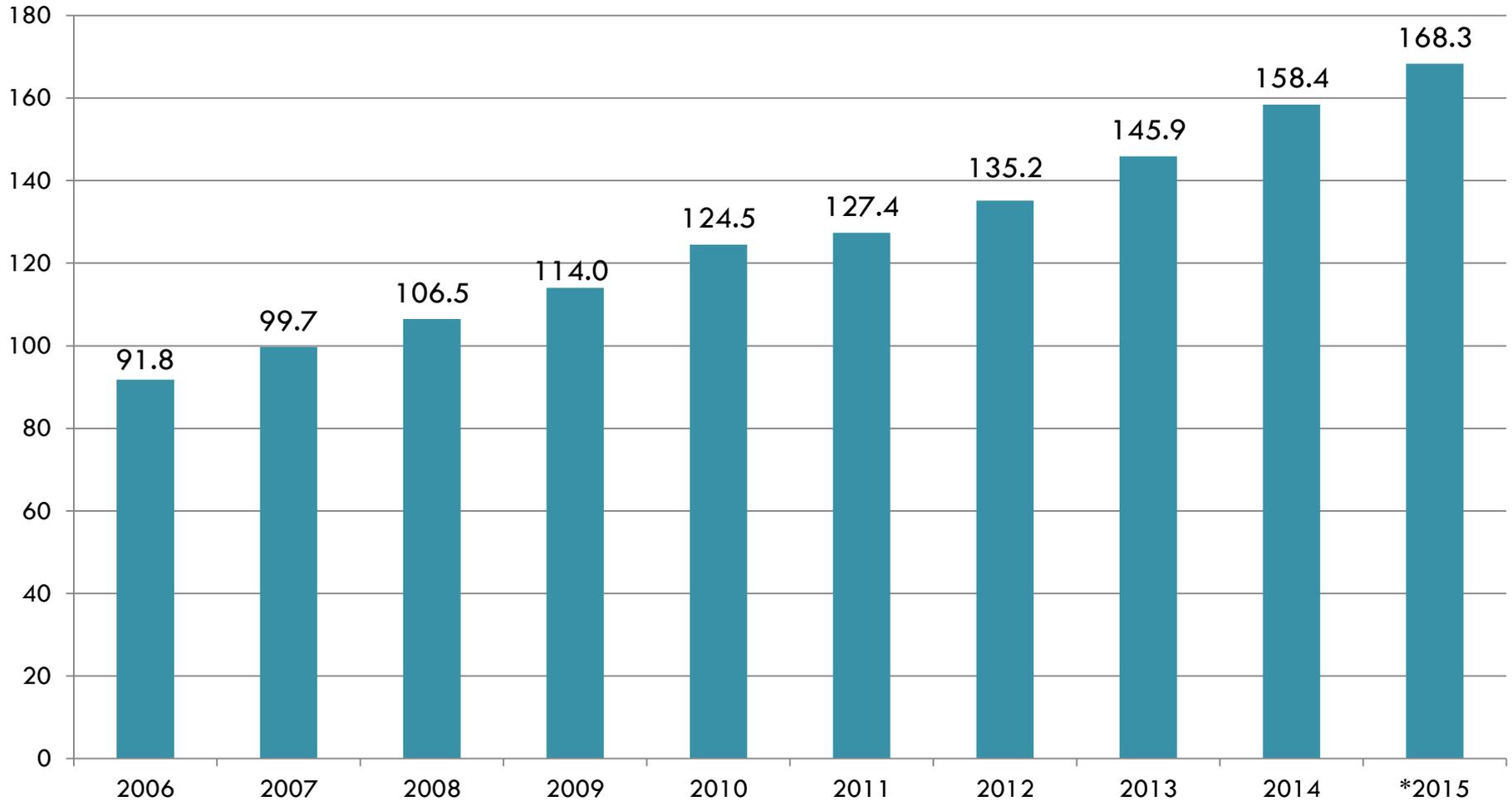
*Preliminary 2015 data

Average Monthly TFFR Benefits by County

(*preliminary 2015 data)

County	Number	Average	Total Benefits	County	Number	Average	Total Benefits
Adams	26	1,745	45,374	Mercer	103	2,014	207,434
Barnes	150	2,017	302,564	Morton	272	1,805	490,876
Benson	53	1,942	102,935	Mountrail	75	1,580	118,477
Billings	3	1,480	4,440	Nelson	57	1,610	91,760
Bottineau	125	1,636	204,500	Oliver	18	1,767	31,812
Bowman	43	1,599	68,775	Pembina	94	1,954	183,661
Burke	41	1,548	63,467	Pierce	62	1,723	106,826
Burleigh	836	2,058	1,720,452	Ramsey	140	1,715	240,127
Cass	1,038	2,070	2,148,896	Ransom	54	1,661	89,681
Cavalier	70	1,583	110,791	Renville	42	1,895	79,591
Dickey	67	1,746	117,011	Richland	132	2,054	271,081
Divide	30	1,927	57,817	Rolette	85	1,770	150,452
Dunn	37	1,901	70,354	Sargent	40	1,538	61,520
Eddy	39	1,976	77,047	Sheridan	20	1,528	30,559
Emmons	31	1,702	52,777	Sioux	4	750	3,000
Foster	42	2,047	85,953	Slope	3	1,355	4,065
Golden Valley	14	1,472	20,603	Stark	210	1,886	395,997
Grand Forks	584	2,046	1,194,914	Steele	19	1,905	36,191
Grant	34	1,442	49,035	Stutsman	204	1,897	387,086
Griggs	42	1,705	71,612	Towner	30	1,619	48,571
Hettinger	28	1,838	51,452	Traill	100	1,818	181,764
Kidder	34	1,664	56,560	Walsh	148	1,766	261,427
LaMoure	60	1,745	104,709	Ward	563	1,953	1,099,619
Logan	20	1,689	33,773	Wells	60	1,750	104,989
McHenry	74	1,911	141,383	Williams	175	1,963	343,612
McIntosh	38	1,756	66,740	Totals	6,449	1,919	12,374,737
McKenzie	55	2,060	113,304	Out of State	1,576	1,529	2,410,084
McLean	125	1,739	217,321	Grand Totals	8,025	1,842	14,784,821

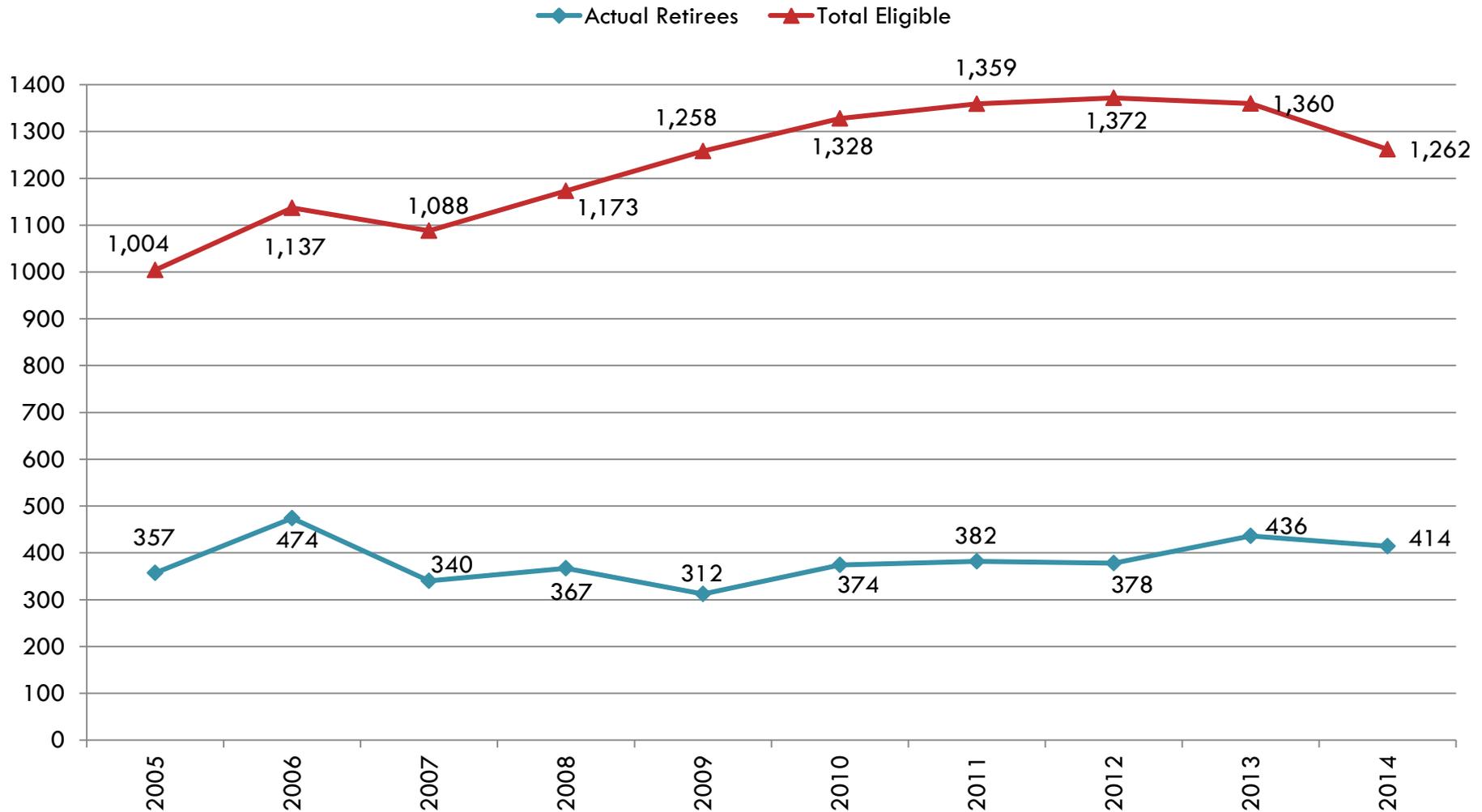
Annual TFFR Pension Benefits Paid



*Preliminary 2015 data

Actual New Retirees and Total Eligible

(as of 1/1/2015)



Contribution Rates

RATES %	Employer	Member	Total	Increase
7/1/10	8.75%	7.75%	16.5%	---
7/1/12	10.75%	9.75%	20.5%	+4%
7/1/14	12.75%	11.75%	24.5%	+4%

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



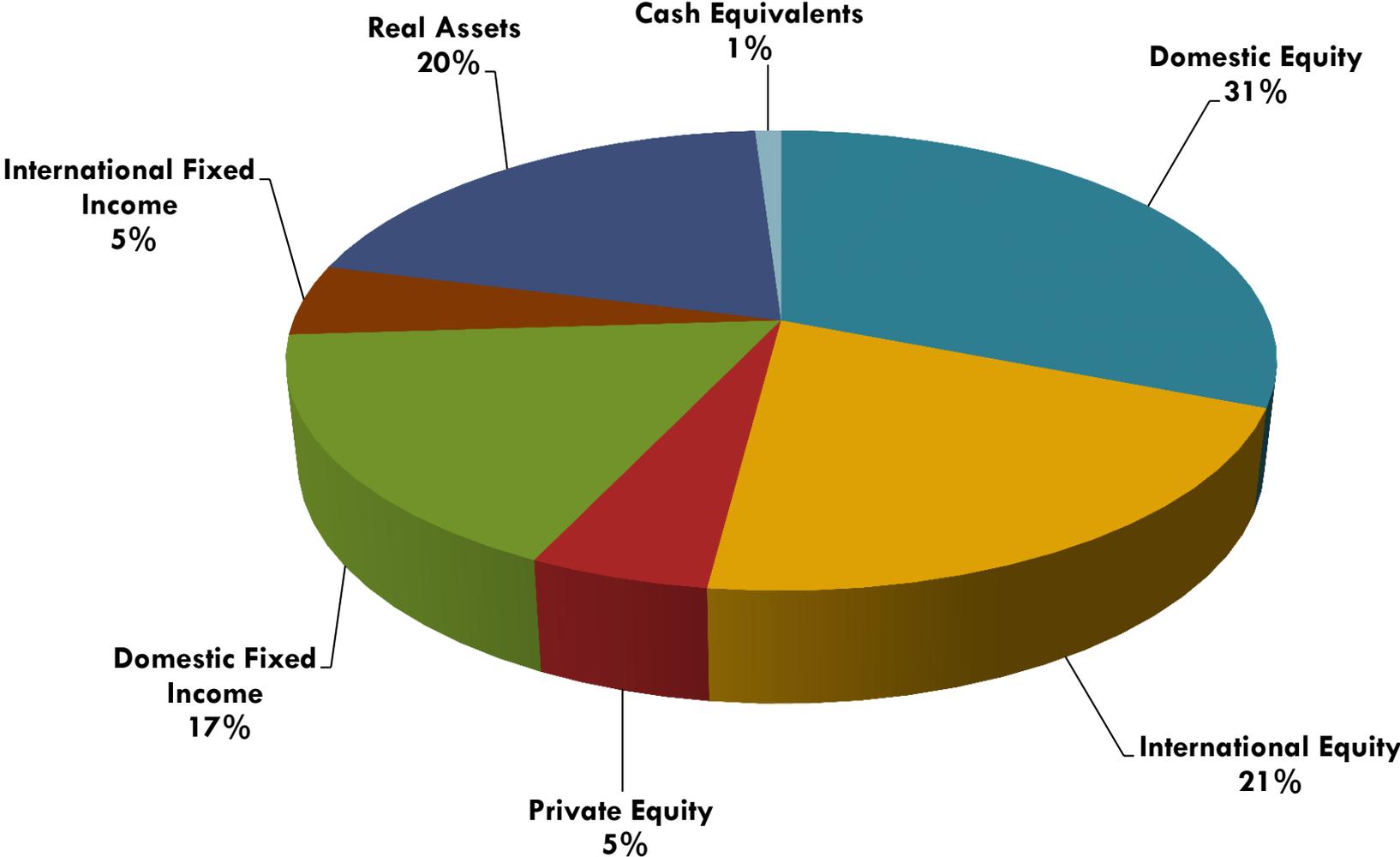
TFFR Investments



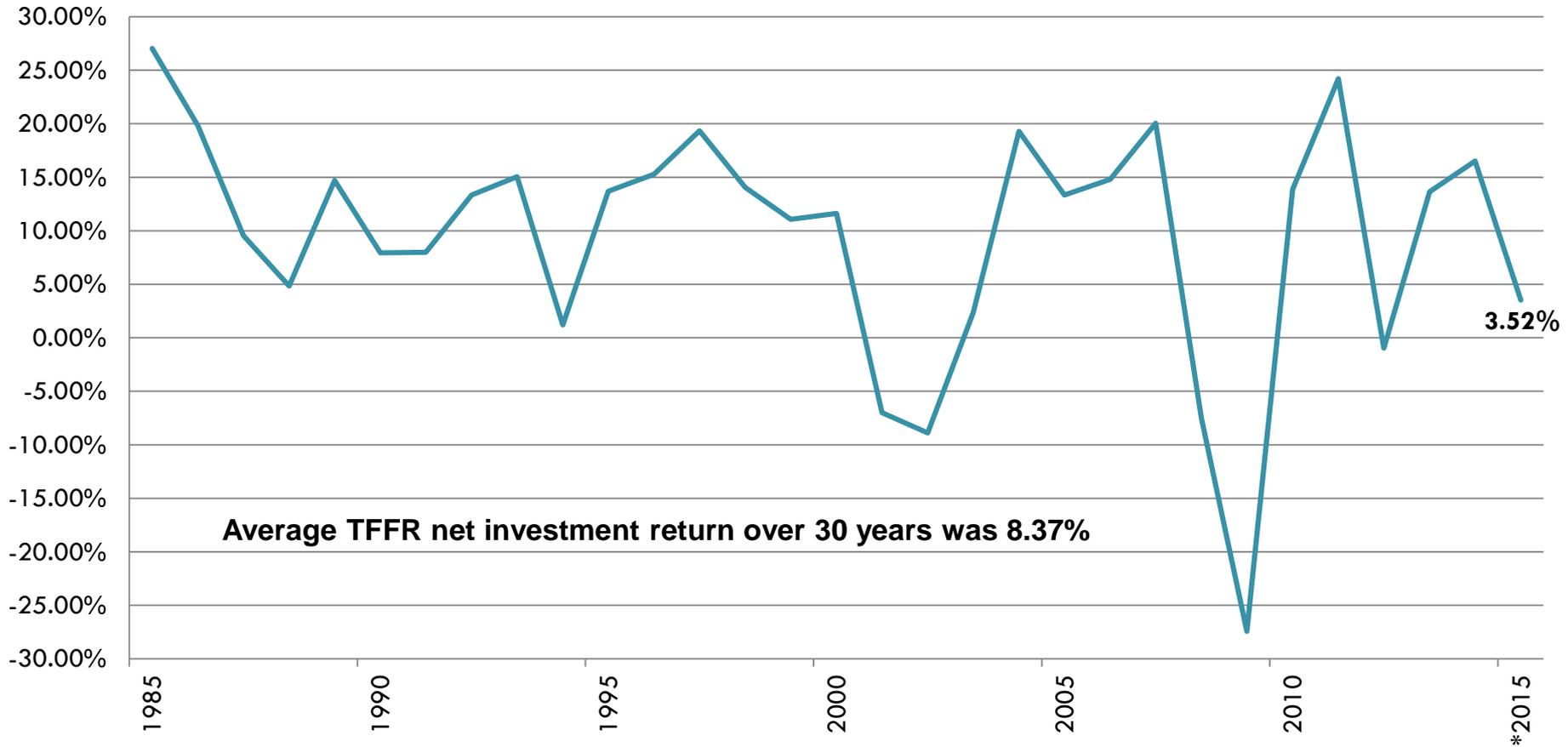
Asset Liability Study

- Asset allocation and investment policy is determined by TFFR Board, with assistance from SIB Chief Investment Officer.
- TFFR investment portfolio is divided into three basic categories:
 - ▣ Global Equity – domestic, international, and private
 - ▣ Global Fixed income – domestic, international
 - ▣ Global Real assets - timber, infrastructure, other
- TFFR Board recently selected a consultant to conduct 5-year Asset Liability Study to determine the appropriate asset mix for funding TFFR pension liabilities. The purpose of this study is to:
 - ▣ Evaluate the effectiveness of the current asset allocation on funding levels, contribution levels, and investment risk and return.
 - ▣ Investigate the impact of alternative asset allocations.

TFFR Asset Allocation



TFFR Net Investment Performance – Annual 1985-2015



Average TFFR net investment return over 30 years was 8.37%

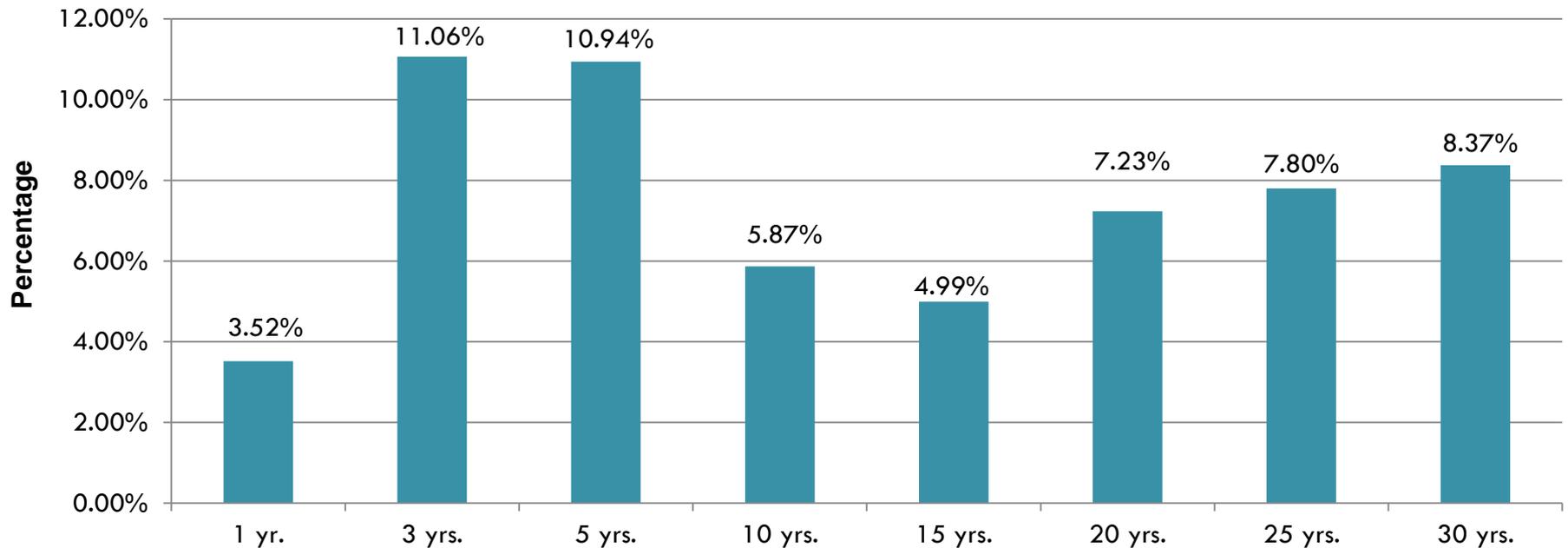
3.52%

*2015

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 2015 data

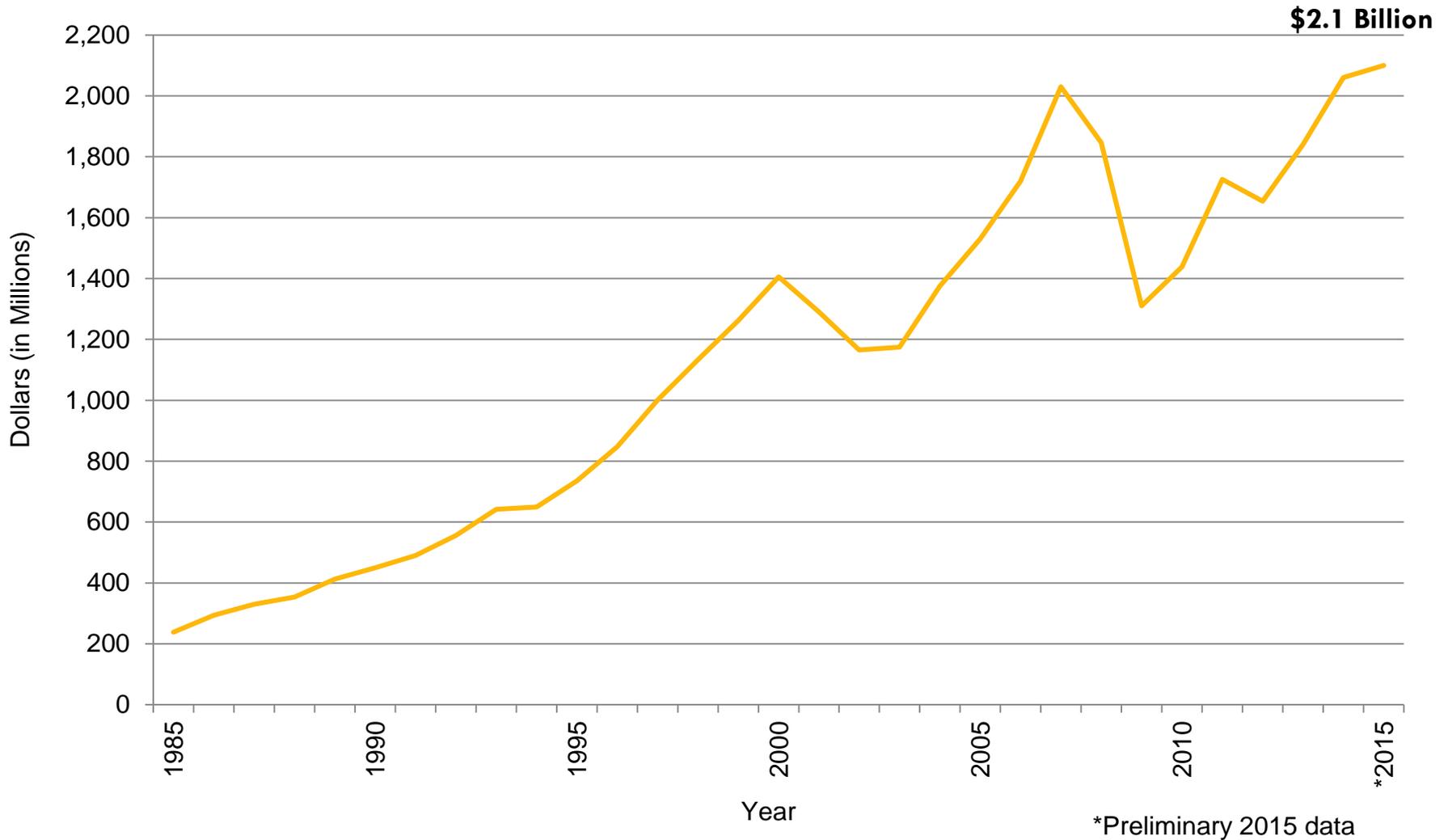
TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2015



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 2015 data

Market Value of TFFR Assets 1985 - 2015



TFFR Funding



Retirement Funding Equation

$$C + I = B + E$$

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



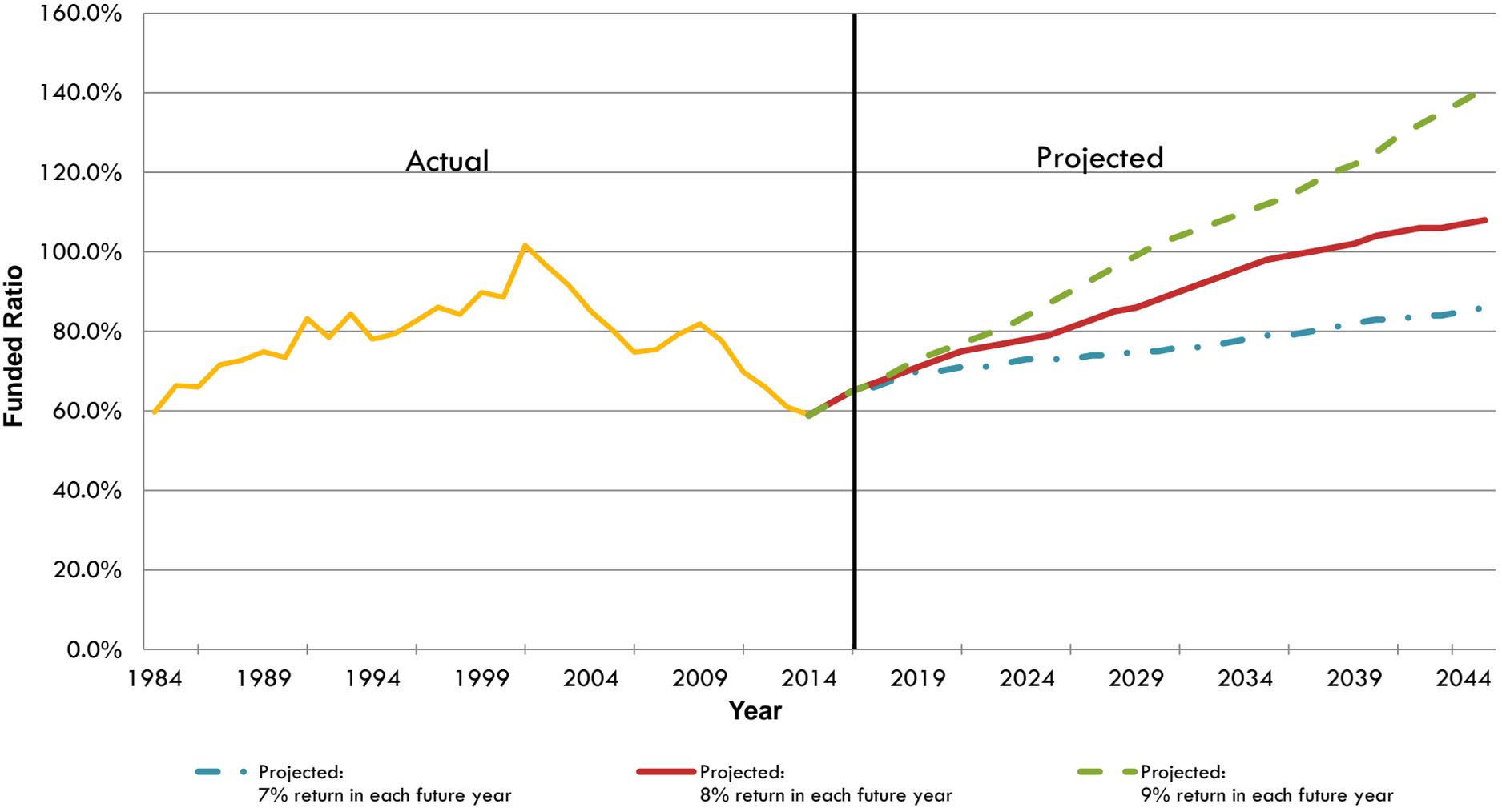
2014 Valuation Report Summary

Actuarial Accrued Liability	(AAL)	\$3.14 billion
Actuarial Value of Assets	(AVA)	<u>- 1.94 billion</u>
Unfunded AAL	(UAAL)	\$1.20 billion
AVA Funded Ratio		62%
Market Value of Assets (MVA)		\$2.09 billion
MVA Funded Ratio		67%

NOTE: 2015 valuation in process - completed late October 2015.

TFFR Funded Ratio (AVA)

Actual and Projected (based on 2014 valuation)



TFFR Funding Improvement Expected

- **With the approved 2011 legislative changes, funding recovery is expected to occur gradually over time.**
 - The significant investment losses experienced in 2008-09 have now been smoothed into actuarial calculations.
 - Final phase of contribution increases began flowing into the plan effective 7/1/14.
- **Time is needed for the changes made to show positive funding results. It will be a long, slow process.**
 - Actuarial projections show it will likely take 20-30 years before TFFR reaches 80% - 100% funding levels, if the plan meets all actuarial assumptions.
 - For the fiscal year ended June 30, 2015, preliminary estimates show TFFR earned about 3% which is less than the actuarial assumed rate on investments. The ongoing global market volatility make a long-term focus particularly important for pension plans like TFFR.

Experience Study

- Experience Study is conducted by actuary every 5 years to compare actual plan experience to assumed plan experience, determine trends, and make recommendations.
 - ▣ Economic assumptions include inflation, salary increase, payroll growth, and investment returns.
 - ▣ Demographic assumptions include termination, disability, retirement, and mortality rates.
- Goal is to improve appropriateness and reliability of actuarial valuations.

Experience Review Results

- Experience Study covered 2009-14 time frame.
- As result of study, TFFR Board:
 - Adopted new mortality tables to reflect longer life expectancies.
 - Reduced inflation assumption from 3.0% to 2.75%.
 - Reduced investment return assumption from 8.0% to 7.75%.
 - Made minor adjustments to salary increase, turnover, and retirement rates
 - Most other assumptions remained valid

Impact of Assumption Changes

- Increases TFFR plan costs by nearly \$156 million
 - ▣ About half of increased costs due to new mortality tables
 - ▣ Other half is because of lower investment return assumption
- Reduces funding level and increases effective amortization period.
 - ▣ TFFR is projected to be 100% funded in about 30 years if all new assumptions are met.
- New assumptions will be used in 7/1/15 valuation report and funding projections.
 - ▣ Assumptions will also be incorporated into certain member and employer payment calculations.

Actuarial Audit

- Actuarial audit is an evaluation by an independent actuary, other than the one who performs the plan's actuarial valuation.
- Purpose is to express an opinion on the reasonableness or accuracy of the actuarial valuation results, assumptions, cost methods, contribution rates and related calculations.
- Actuarial audit is done every 5 years; next one is scheduled for 2016.

Other Issues



2015 Legislation

- No legislation passed which will affect TFFR plan benefits, contributions, or retiree payments.
- TFFR technical corrections bill was approved which updates plan provisions relating to compliance with Internal Revenue Code requirements.

New GASB Standards

- Governmental Accounting Standards Board (GASB) recently approved two new standards that will change the accounting and financial reporting of public employee pensions by state and local governments.
- **Statement #67** – Changes financial reporting for governmental pension plans (NDTFFR).
 - ▣ Effective for plan year beginning 7/1/13 – 6/30/14.
- **Statement #68** – Establishes new accounting and financial reporting requirements for state and local governments (participating employers, school districts).
 - ▣ Effective for plan year beginning 7/1/14 – 6/30/15.

New GASB Standards

- ❑ Funding/contribution reporting requirements will be different than accounting/financial reporting requirements. Having two different “cost” numbers – funding and expense – may be confusing.
- ❑ Net pension liability (NPL) will be placed in footnotes of TFFR financial statements AND the employer’s (school district) balance sheet. This will add a large and unstable element to an employer’s net financial position.
- ❑ Each employer (school district) must disclose in their financial statements, their proportionate share of:
 - Net Pension Liability (NPL) - total pension liability minus market value of assets, calculated using a specific formula
 - Pension Expense – change in NPL each year with certain deferrals
 - Deferred outflows and deferred inflows of resources related to pensions – difference between expected and actual demographic and investment experience
 - Additional disclosures about TFFR plan, including assumptions, etc.

New GASB Standards

- TFFR is responsible for implementing the new pension reporting requirements in GASB 67 which was incorporated into 2014 audited financial statements.
- Each employer (school district) is responsible for implementing the new pension reporting requirements in GASB 68 for 2015 financial statements using information provided by TFFR. School districts will need to work with their accounting, financial, and audit specialists for assistance. This is a MAJOR change from previous reporting requirements, although there have been NO fundamental changes to plan funding requirements.
- TFFR, PERS, and the State Auditor's Office developed a joint implementation and training plan with plan actuaries, auditors, and staff.
- We will all need to work together to understand and implement these new pension reporting requirements.

Frequently Asked Questions



1) Is TFFR's funding situation improving?

- Funding recovery is expected to occur gradually over time, but it will be a long, slow process.
 - Funding levels are expected to improve gradually over time. Now that the 2008-09 investment losses have been recognized over the 5-year smoothing period, and increased member and employer contributions are flowing into the system, funding improvement is anticipated.
 - Actuarial projections show it will likely take 20-30 years before TFFR reaches 80% - 100% funding levels, if the plan meets all actuarial assumptions.
- A long term focus is important in financing pensions. Due to legislative action taken, TFFR's long term funding outlook is positive, and benefits are secure for past, present, and future ND educators.

2) Will retirees receive an increase in their TFFR annuity?

- Unfortunately, the TFFR trust fund cannot afford to increase retiree benefit payments as it would negatively impact the fund. TFFR does not anticipate being in a financial position to fund retiree benefit improvements for many years in the future due to a funding shortfall.
- The Board's highest priority is to ensure that adequate funds will be available to pay all promised benefits to current and future retirees.
- **Because TFFR is a defined benefit pension plan, current retiree benefits will be paid for life.**

3) Since ND has a budget surplus, why can't the State fund a retiree increase?

- While the State of ND has a budget surplus, it also has a long list of budget requests. These spending requests are closely scrutinized and prioritized by the Legislature, and must be sustained over the long term.
- How state funds are spent is ultimately a decision of the Legislature.
- Historically, the Legislature has only approved TFFR retiree increases when the funding source was the TFFR trust fund.

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

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

Anytime your monthly benefit amount changes, a notice is mailed to you explaining the reason for the change.

TFFR Information

TFFR website: www.nd.gov/rio

- Legislation
 - Links to ND Legislative website, bill drafts, actuarial analysis, testimony
- Presentations
 - 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 or sschumacher@nd.gov