

NDTFFR UPDATE

ND Retired Teachers Convention – Bismarck September 14, 2016

Fay Kopp, Chief Retirement Officer – Deputy Executive Director
ND Teachers' Fund for Retirement (TFFR)
ND Retirement & Investment Office (RIO)

A Capital Adventure Awaits



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
 - Toni Gumeringer, Bismarck (New)
- **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

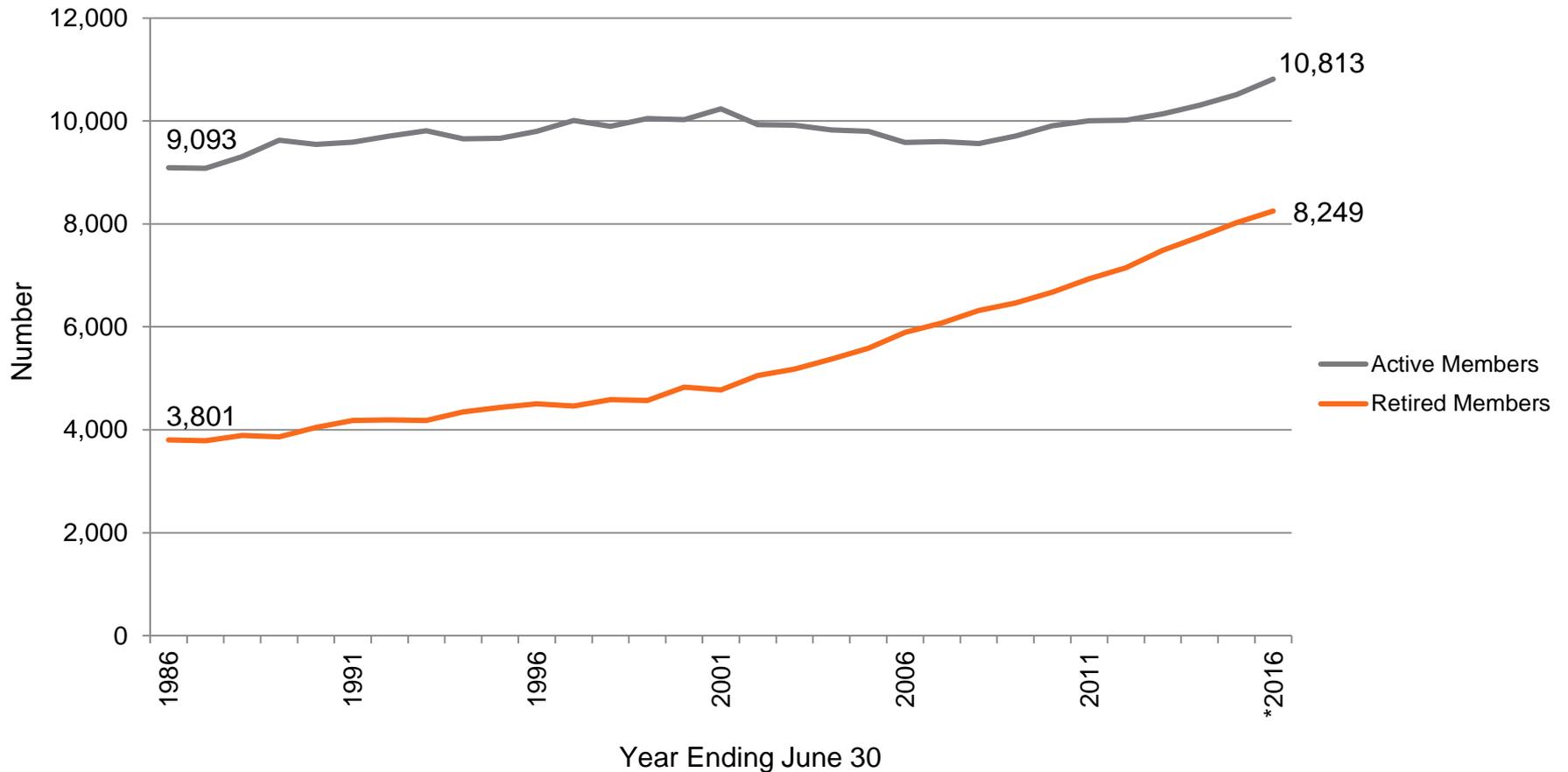
- ▣ Mike Gessner (TFFR)
- ▣ Rob Lech (TFFR)
- ▣ Mel Olson (TFFR)

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

TFFR Background

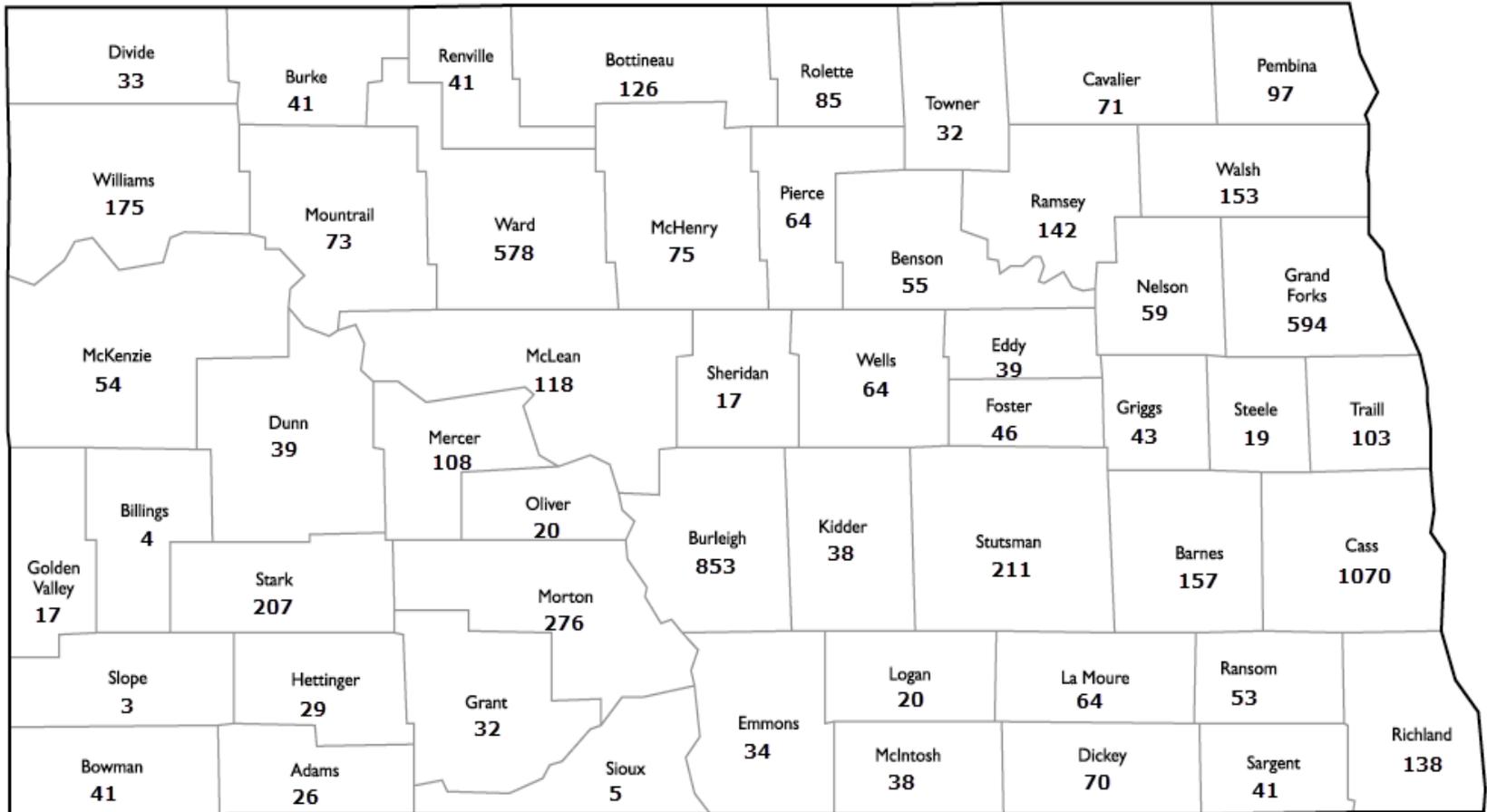


Active and Retired TFFR Members 1986 - 2016



*Preliminary 2016 data

TFFR Retired Members by County



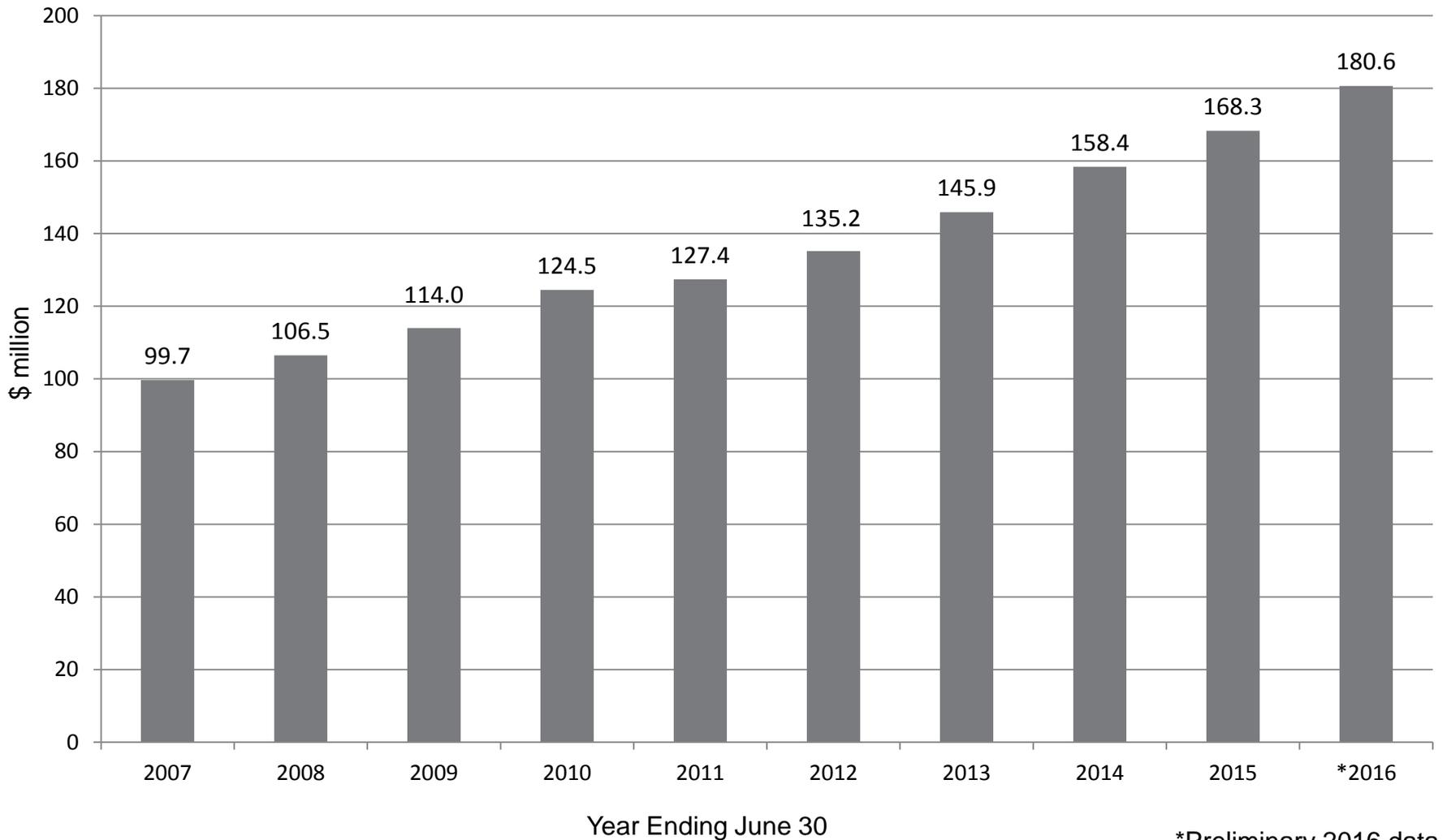
In-state 6,591
 Out-of-state 1,658
 Total 8,249

Average Monthly TFFR Benefits by County

(*preliminary 2016 data)

County	Ret Cnt	Avg Ben	Tot Ben		County	Ret Cnt	Avg Ben	Tot Ben
Adams	26	1,974	51,325		Mercer	108	2,108	227,670
Barnes	157	2,101	329,872		Morton	276	1,864	514,438
Benson	55	2,052	112,882		Mountrail	73	1,560	113,877
Billings	4	1,479	5,917		Nelson	59	1,764	104,068
Bottineau	126	1,624	204,600		Oliver	20	2,026	40,513
Bowman	41	1,808	74,134		Pembina	97	2,035	197,424
Burke	41	1,549	63,508		Pierce	64	1,802	115,327
Burleigh	853	2,085	1,778,843		Ramsey	142	1,752	248,727
Cass	1,070	2,141	2,291,291		Ransom	53	1,652	87,548
Cavalier	71	1,605	113,981		Renville	41	1,871	76,711
Dickey	70	1,813	126,886		Richland	138	2,094	288,994
Divide	33	1,898	62,620		Rolette	85	1,840	156,439
Dunn	39	2,034	79,314		Sargent	41	1,559	63,903
Eddy	39	1,990	77,621		Sheridan	17	1,612	27,405
Emmons	34	1,927	65,525		Sioux	5	639	3,196
Foster	46	2,111	97,086		Slope	3	1,355	4,065
Golden Valley	17	1,566	26,624		Stark	207	1,902	393,671
Grand Forks	594	2,111	1,253,877		Steele	19	1,932	36,701
Grant	32	1,450	46,398		Stutsman	211	1,975	416,740
Griggs	43	1,682	72,319		Towner	32	1,727	55,262
Hettinger	29	1,902	55,150		Traill	103	1,846	190,103
Kidder	38	1,659	63,024		Walsh	153	1,831	280,099
LaMoure	64	1,823	116,670		Ward	578	2,013	1,163,773
Logan	20	1,775	35,507		Wells	64	1,827	116,926
McHenry	75	1,972	147,937		Williams	175	2,026	354,595
McIntosh	38	1,733	65,858		Totals	6,591	1,975	13,015,003
McKenzie	54	2,043	110,346		Out of State	1,658	1,561	2,587,731
McLean	118	1,760	207,713		Grand Totals	8,249	1,891	15,602,734

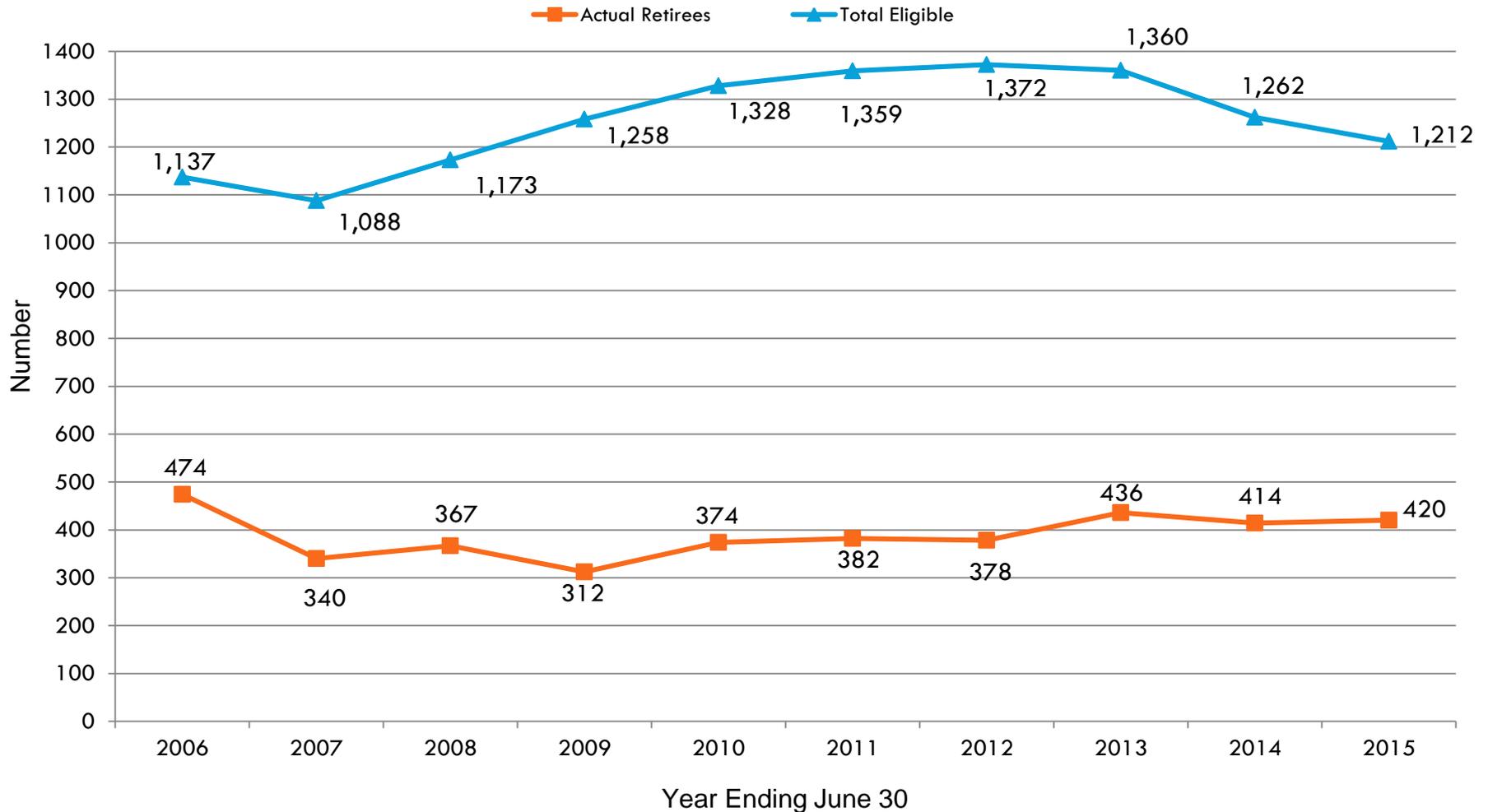
Annual TFFR Pension Benefits Paid



*Preliminary 2016 data

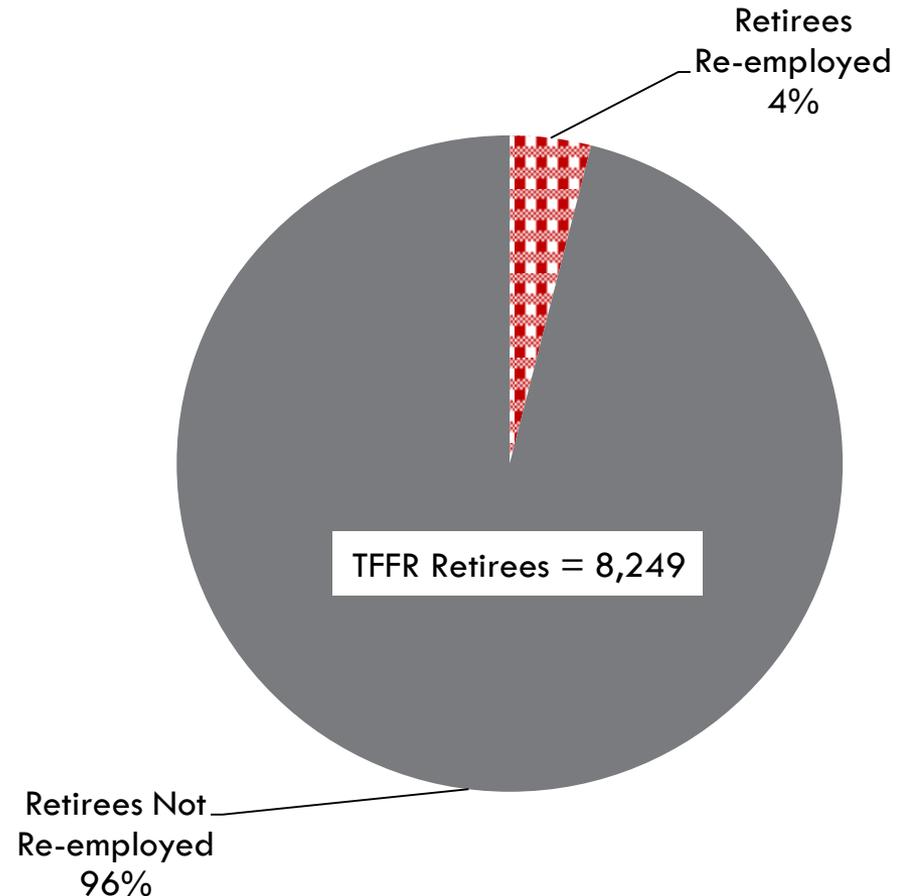
Actual New Retirees and Total Eligible

(as of 1/1/2016)



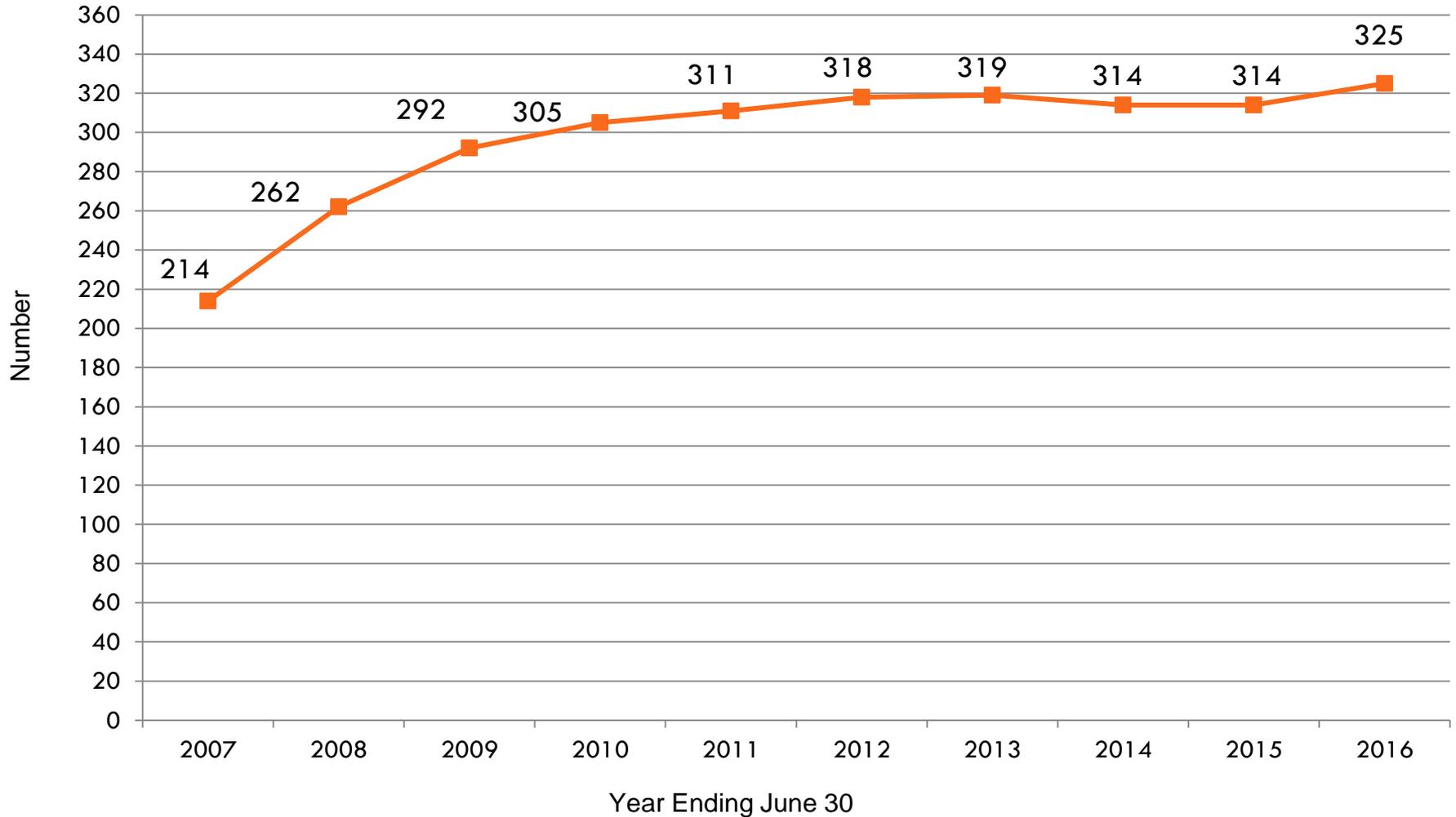
TFFR Retiree Re-Employment 2015-16

Total number of Re-employed Retirees:	325
Superintendents	26
Administrators	27
Teachers	<u>272</u>
General Rule	286
Critical Shortage Area	38
Suspend and Recalculate	<u>1</u>
Average Age	63
Average Salary	\$26,000
Total Salaries	\$8,657,000
No. Employers w/retirees	139



*Preliminary 2016 data

TFFR Retiree Re-Employment 2015-16



*Preliminary 2016 data

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: TFFR contribution rates were increased 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

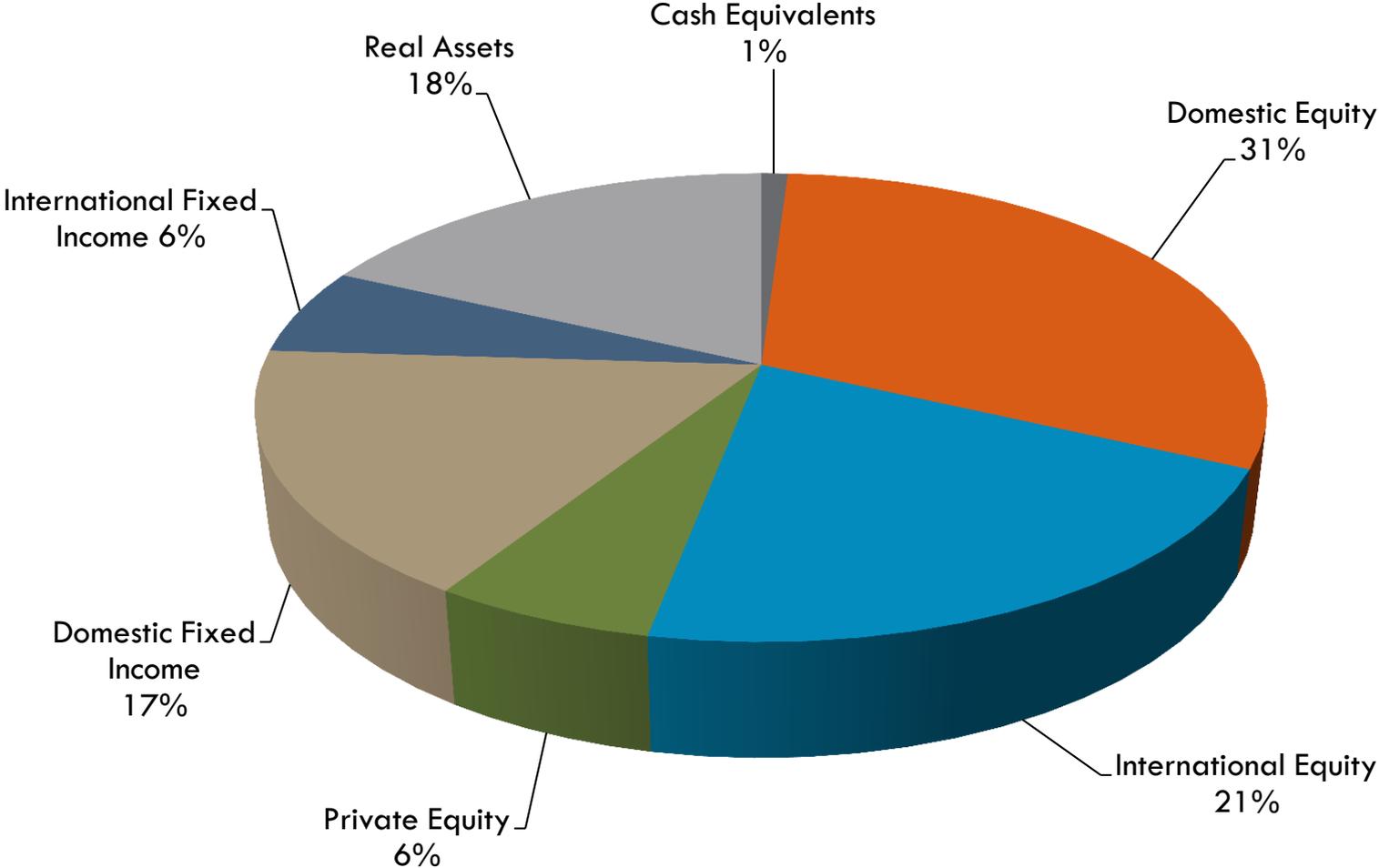


Asset Liability Study

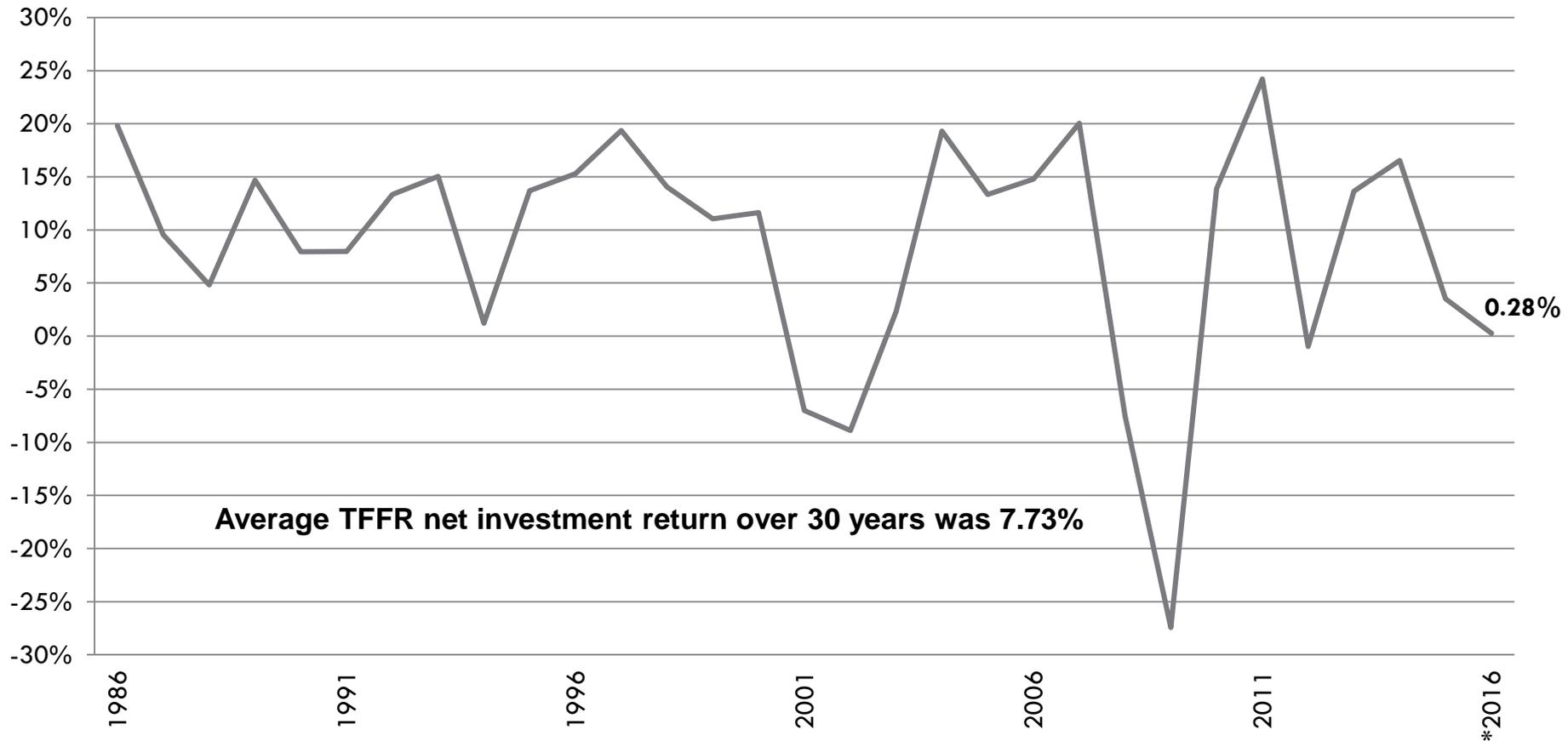
- Asset allocation and investment policy is determined by TFFR Board, with assistance from SIB Chief Investment Officer.
- TFFR investment portfolio is divided into three basic categories:
 - ▣ Global Equity – domestic, international, and private
 - ▣ Global Fixed income – domestic, international
 - ▣ Global Real assets - timber, infrastructure, other
- TFFR Board recently worked with an investment consultant and completed a 5-year Asset Liability Study to evaluate the effectiveness of the current and alternative asset allocations on funding levels, and investment risk and return.
- The Board made some minor adjustments to TFFR's investment policy statement and asset allocation effective June 30, 2016: 1% increase to Global Equity, 1% increase to Global Fixed Income, and 2% decrease to Global Real Assets (Timber).

TFFR Asset Allocation

6-30-16



TFFR Net Investment Performance – Annual 1986-2016



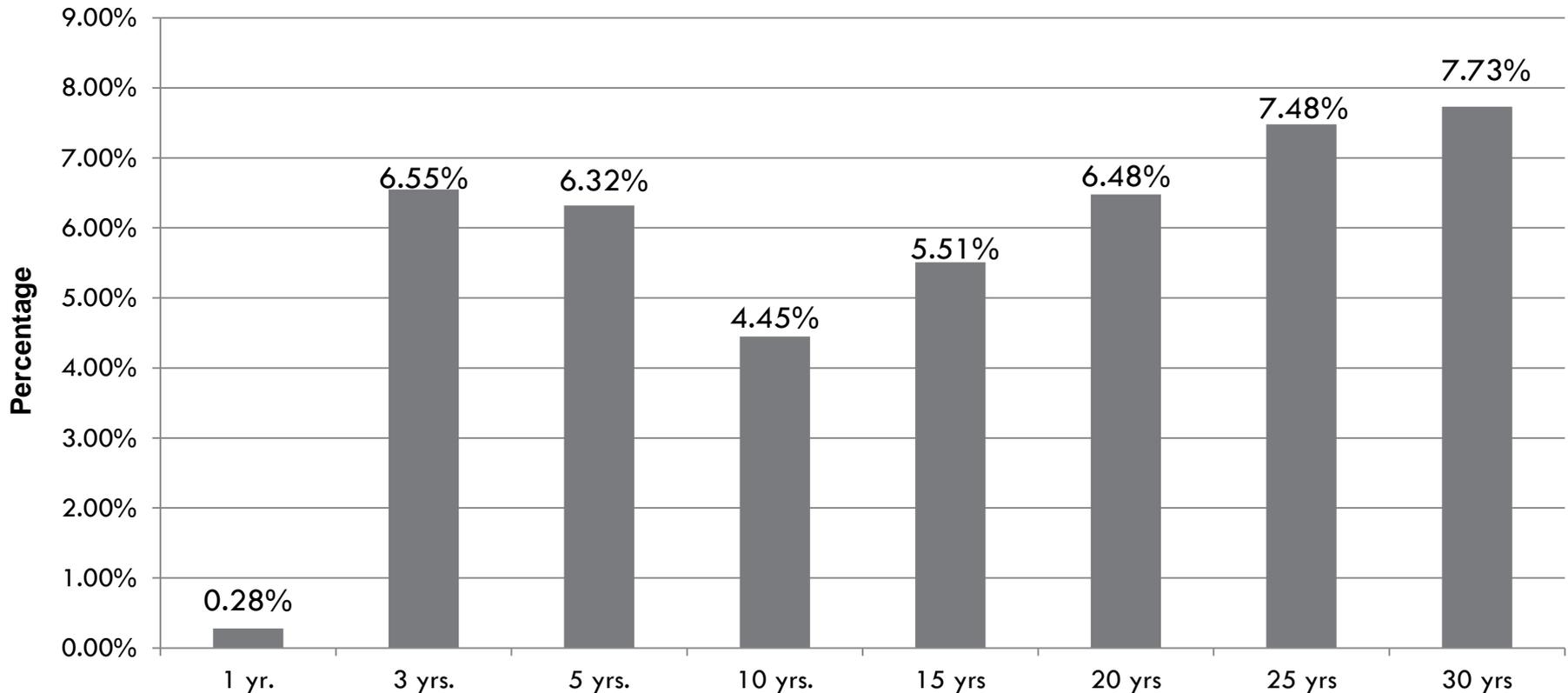
Average TFFR net investment return over 30 years was 7.73%

0.28%

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 2016 data

TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2016



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 2016 data

Market Value of TFFR Assets 1986 - 2016



TFFR Funding



Retirement Funding Equation

$$C + I = B + E$$

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



Experience Study

- Experience Study was conducted by actuary to compare actual plan experience to assumed plan experience in order to improve the appropriateness and reliability of actuarial valuations. 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

- These changes increased TFFR plan costs by over \$171 million
 - About half of increased costs due to new mortality tables
 - Other half is because of lower investment return assumption

- New assumptions were used in 7/1/15 valuation report and funding projections.

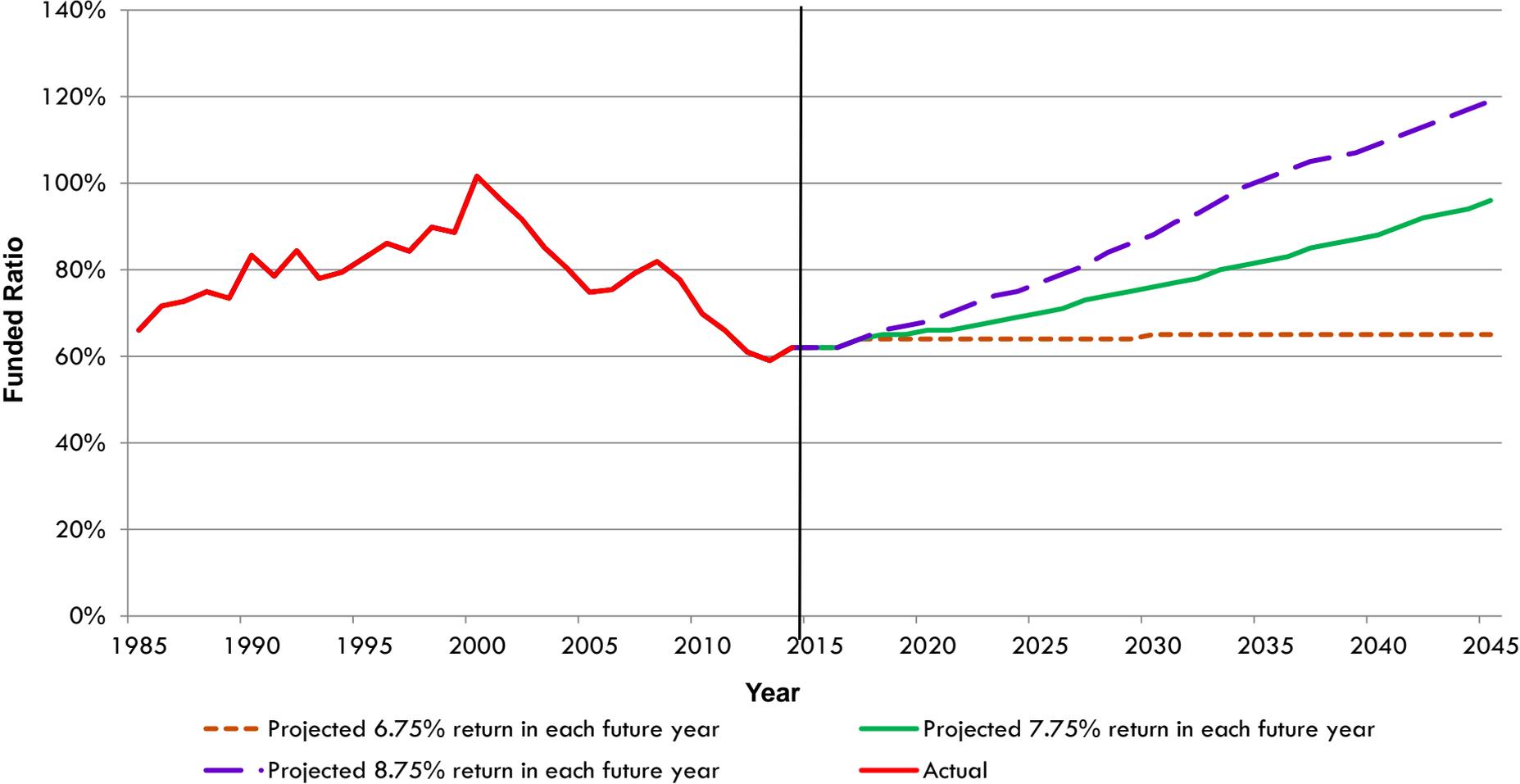
2015 Valuation Report Summary

Actuarial Accrued Liability	(AAL)	\$3.45 billion
Actuarial Value of Assets	(AVA)	<u>- 2.13 billion</u>
Unfunded AAL	(UAAL)	\$1.32 billion
AVA Funded Ratio		61.6%
Market Value of Assets (MVA)		\$2.14 billion
MVA Funded Ratio		62.1%

NOTE: 2016 valuation in process – will be completed late October 2016.

TFFR Funded Ratio (AVA)

Actual and Projected (based on 2015 valuation)



TFFR Funding Improvement Expected

- **Due to legislative changes made, funding recovery is expected to occur gradually over time.**
 - Benefit changes for nongrandfathered members became effective 7/1/13.
 - Final phase of contribution increases (total 8%) 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.**
 - 2015 funding projections show it will likely take 20-30 years before TFFR reaches 80% - 100% funding levels, if the plan meets all actuarial assumptions. However, if investment returns are less than expected or other actuarial experience is different than expected, it will take a longer period of time to return to adequate funding levels.
 - Funding levels have remained relatively flat for the past few years, and may slightly decline this year due to recent investment performance.
 - 2016 valuation results and funding projections will be reported in late October 2016.
- **The ongoing global market volatility make a long-term focus particularly important for pension plans like TFFR.**

Actuarial Audit

- TFFR Board selected independent actuary, Cavanaugh Macdonald Consulting, to conduct audit of plan's consulting actuary, Segal Consulting.
- Auditor reviewed actuarial assumptions and methods used; member data; 2015 valuation results and report; GASB reporting; and funding projection model.
- Audit results were positive and auditor was able to validate actuarial work done by plan actuary, with only a few minor recommendations.
- Audit enhances the credibility of the actuarial valuation process by providing independent assurance that it was performed accurately and in accordance with actuarial standards of practice.

Other Issues



2017 Legislation

- No legislation has been submitted by TFFR Board or others for interim legislative study which would affect TFFR plan benefits, contributions, or retiree payments.

TFFR Member Online Services Coming Soon!

- Retirees will soon be able to access TFFR account information and benefit details on this SECURE internet application.
- TFFR will notify members when this option becomes available.
- To log on, you will need your Person ID number which can be found at the top of your retiree annual statement which is sent to you each December.
- Watch for more details!

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.
- TFFR is responsible for implementing the new pension reporting requirements in GASB 67 which was first incorporated into 2014 audited financial statements.
- Each employer (school district) is responsible for implementing the new pension reporting requirements in GASB 68 which were first included in 2015 school district financial statements using information provided by TFFR.
- Funding/contribution reporting requirements will be different than accounting/financial reporting requirements. Having two different “cost” numbers – funding and expense – may be confusing.

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 have remained relatively flat for the past few years, and may slightly decline in 2016 due to recent investment performance. **However, funding levels are expected to improve gradually over time.**
 - 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) 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